MEMORANDUM

Date: May 4, 2020

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

From: C.H. Huckelberry
County Administrator

Re: **Transmittal of the Recommended Fiscal Year 2020/21 Budget**

Introduction

This memorandum transmits the Recommended Fiscal Year (FY) 2020/21 Budget for Pima County. As you know, in March 2020 the Coronavirus (COVID-19) spread to Pima County. It has had a devastating impact on our local economy, forcing many businesses to close and cancel many, if not all, scheduled events. Since the COVID-19 pandemic outbreak occurred after the departmental budget submittals, but prior to the submission of the FY 2020/21 Recommended Budget to the Board of Supervisors, I have included the pre-COVID-19 Budget submittal, as well as, my post-COVID-19 recommendations.

Pre-COVID-19 Submittal (pages 6 thru 25)

This section of the Recommended Budget was created based on the information that was available prior to COVID-19. Therefore, the State Reports, Departmental Budgets, and this section within the Transmittal Letter do not include the possible economic impacts due to the Coronavirus pandemic outbreak.

For those areas that have been impacted by COVID-19, I have added an asterisk (*) on the Table of Contents and shading within the document to signify the sections that are further discussed in the Post-COVID-19 section.

Post-COVID-19 Recommendations (pages 26 thru 30)

This section updates the base information from the pre-COVID-19 Budget for the recent and estimated economic impacts of the Coronavirus pandemic outbreak. These anticipated impacts are only estimates as the total financial impact to Pima County and our local economy is still unknown.

As additional relevant information becomes available, I will communicate it to the Board of Supervisors.

On March 3, 2020 the Board approved holding three public hearings on the budget. Given it is unlikely we will be able to meet social distancing standards for these presentations, I recommended at the April 21, 2020 Board of Supervisors Meeting that these hearings be canceled and all of the statutory hearing requirements continue. On April 21, 2020, the Board approved canceling these three public hearings due to COVID-19.

Working budget drafts, including budgets submitted by all County departments, have been available on the County Budget website since February 3, 2020. These reports receive weekly updates throughout the budget process and include the following:

- Recommended Summary by Object Reports for both revenue and expenditures;
- Recommended Detail Line Item by Unit Reports for revenue and expenditures;
- Recommended Positions by Unit.

The above financial reports include the FY 2018/19 actual amounts, FY 2019/20 Adopted Budget, FY 2019/20 year-to-date amounts as of the date of the report and the FY 2020/21 Recommended Budget. The reports also include two columns of variances that compare the FY 2019/20 Adopted Budget to the FY 2020/21 Recommended Budget and the FY 2019/20 Adopted Budget to the FY 2019/20 year-to-date expenditures and revenue.

In addition to these reports, the County Budget website includes budget-related communications issued to the Board and County departments throughout the FY 2020/21 budget process to date. This information can be accessed on the County's home page (www.pima.gov) by clicking on the County Budget link.

Significant dates in the budget adoption and tax levy processes are as follows:

May 19, 2020	Tentative Budget Adoption (Sets Budget Ceiling)
June 23, 2020	Truth in Taxation Hearing (Pima County, Regional Flood Control District and County Free Library)
June 23, 2020	Final Budget Adoption
August 17, 2020	Tax Levy Adoption (Date set by state statute)

The documents shown below follow this budget memorandum.

- Budget schedules showing fund balances, expenditures, revenues, transfers and other financing sources.

- A summary of each department's budget, including a description of the budget on a line-item account basis.

The County's base operating budget for all funds set forth in this recommendation includes projected, continuing and new cost shifts, revenue reductions and revenue sharing.

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*Denotes sections are further discussed in the post-COVID-19 Recommendations

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I. OVERVIEW OF RECOMMENDED BUDGET

Pima County's FY 2020/21 Recommended Budget continues the conservative approach to budgeting that has been followed since the start of the last recession. The County continues to adjust its budget in response to reduced revenues and increased service demands. For the pre-COVID-19 Budget, departmental budgets have been decreased by three percent in personnel services, seventy five percent in out-of-state travel and training and fifteen percent in various operating supplies. For the post-COVID-19 Budget, each department was asked to prepare an additional five percent expenditure reduction plan to offset revenue losses caused by the COVID-19 pandemic. I also will be recommending a salary furlough within the post-COVID-19 Budget to be effective January 1, 2021 if we do not meet targeted expenditure reductions. These expenditure reductions will be implemented to build a post-COVID-19 fund balance.

The Recommended Budget (pre-COVID-19 Budget) was created based on the information that was available prior to COVID-19. Therefore, the State Reports, Departmental Budgets, and information provided on pages 5 thru 24 of this Transmittal Letter do not include the possible economic impacts due to the Coronavirus pandemic outbreak.

To see the post-COVID-19 recommendations, please see pages 25 thru 28.

PRE-COVID-19 BUDGET RECOMMENDATIONS

FY 2020/21 significant pre-COVID-19 budget highlights include the following:

- The projected General Fund available ending balance for FY 2019/20 is $58,205,372, an increase of $15,080,766 over the budgeted FY 2019/20 General Fund Reserve of $43,124,606. This amount represents the beginning fund balance for FY 2020/21.

- It is recommended that the FY 2019/20 ending balance be allocated primarily to the following purposes:

    - $15,000,000 to fund the contract payment to Banner Health on behalf of the Banner–University of Arizona Medical Center South Campus;

    - $1,726,800 to fund the State's continuing discriminatory shift of costs to the County for Juvenile Corrections;

    - $780,558 to fund the State's shift of costs to the County for the Arizona Department of Revenue;

    - $40,698,014 to fund a portion of the General Fund Budget Reserve, for FY 2020/21.

- It is recommended that the General Fund primary property tax rate be increased $0.0282 from the FY 2019/20 rate of $3.9996 to $4.0278 to fund the Pay-As-You-Go program. Budgeted FY 2020/21 primary property tax collections from all sources total $369,696,062.

- Assuming the Board adopts the increased General Fund primary property tax rate to $4.0278 per $100 of net assessed value, recommended General Fund revenues and transfers-in for FY 2020/21 are projected to be $619,382,829, which is $25,790,984, or 4.3 percent, more than the current year.

- Excluding primary property taxes, General Government Revenues from all other sources are projected to increase $6,841,588.

- The value of the net primary property tax base is projected to increase 4.70 percent. This is the sixth time in ten years the property tax base has increased. Between FY 2009/10 and FY 2014/15, the County's primary net assessed value declined 16.3 percent. For the first time in over ten years the FY 2020/21 net assessed value exceeds the FY 2009/10 value. It is expected the property tax base will continue to increase modestly for the next few years. While the valuation is increasing, the proposed General Fund primary property tax rate is recommended to increase by $0.0282 per $100 of net assessed value. This will result in an increase in the net General Fund primary property tax levy of $18,994,398 over the FY 2019/20 levy.

- General Fund primary property tax revenues from all sources are projected to increase $18,649,386 at the increased tax rate. Primary property tax revenues are different from the tax levy because of the impact of actual property tax collection rates, the amount of delinquent property tax collected and the associated penalties and interest collected on delinquent property taxes.

- Recommended General Fund expenditures and transfers-out for FY 2020/21 are projected to be $677,588,201, which is $10,787,823, or 1.6 percent more than the current year's adopted budget.

- Existing State budget cost transfers for FY 2020/21 have an annual budget impact of $96,419,679 million, or 27 percent of the recommended General Fund primary property tax rate of $4.0278.

- The recommended General Fund Budget Reserve totals $42,334,544, or 6.8 percent of recommended General Fund revenues and operating transfers-in.

- The Recommended Budget for the Library District for operating costs, grants and operating transfers-out is $51,868,260 a $1,146,057 decrease from the current year. The secondary property tax rate is recommended to remain at the FY2019/20 rate of $0.5353 per $100 of net assessed value.

- The Recommended Budget for Debt Service is $118,515,443, a $10,653,559 increase from the current year. The recommended budget proposes the secondary property tax rate be reduced to $0.5200 per $100 of net assessed value, a $0.17 decrease from the FY2019/20 rate of $0.6900, resulting in a decrease of $12,706,543 in the secondary property tax levy.

- The Recommended Budget for the Regional Flood Control District (RFCD) for operating costs, special revenue, grants, and operating transfers-out is $29,983,905, a $3,719,910 decrease from the current year, which includes an increase of $1,480,551 in the secondary property tax levy. The recommended budget proposes the secondary property tax rate remains at $0.3335 per $100 of net assessed value.

- The combined primary and secondary recommended County property tax rate (excluding the Fire District Assistance Tax) is $5.4166 per $100 of net assessed value and is a decrease of $0.1418 from FY 2019/20. The resulting combined County levy (excluding the Fire District Assistance Tax) is $492,593,179, a $9,965,604 increase over the current year.

- The combined, total Recommended County Expenditure Budget for FY 2020/21 is $1,345,458,712 and is $34,641,172, or 2.6 percent, more than the current year Adopted Budget.

II. ISSUES SIGNIFICANTLY IMPACTING THE COUNTY BUDGET

This section contains a series of brief descriptions of some of the major issues that impact Pima County's FY 2020/21 Recommended Budget. Further details are contained in various memoranda accessed via the County Administrator Memoranda FY 2020/21 page on the County Budget website.

A. State Cost Shifts

The shifting of the State of Arizona's Budget Costs to Pima County continues to have direct, adverse impacts on the programs and services provided by the County in FY 2020/21.

Overall FY 2020/21 State cost shifts total nearly $96.4 million, or 27 percent of the proposed General Fund primary property tax rate of $4.0278 per $100 of net assessed value. These scheduled cost shifts are approximately $8.5 million more than last year and will have to be absorbed into the budget. It is likely these cost shifts will increase even faster next year as the full impact of a twenty plus percent increase in AHCCC enrollment will need to be paid. A detailed list of these State cost transfers is shown in Table 1 below.

Table 1: Continuing FY 2020/21 State Cost Transfers to Pima County.

Description	Amount Required From Pima County
Superintendent of Schools Accommodation District	$461,700
Arizona Department of Revenue Operating Cost	780,558
Restoration to Competency	1,028,627
Constables – Salaries and Benefits	1,159,700
State Juvenile Detention	1,726,800
Justice Courts – JP Salaries and Benefits	1,771,226
Behavioral Health System State Contribution	3,064,936
Arizona Health Care Cost Containment System	16,654,300
Superior/Juvenile Court – Salaries and Benefits	20,180,253
Arizona Long Term Care System	49,591,579
Total	**$96,419,679**

B. Employee Benefits

Overall FY 2020/21 County benefits costs are expected to increase by a net of $5.3 million over FY 2019/20 (from $158.9 million to $164.2 million). This net additional cost is primarily driven by significant increases in the County's required contribution rates for the Public Safety Personnel Retirement System (PSPRs), and the Arizona State Retirement System (ASRS). For FY 2020/21 departmental Worker's Compensation costs will be covered by the Self-Insured Trust fund.

Based on the plan performance of the Pima County Health Care Benefits Trust, FY 2020/21 health insurance rates for both the County and eligible County employees will increase from the FY 2019/20 rates. As the result of various wellness and other initiatives instituted by the County over the past several years and overall employee usage of the County's self-insured employee health plan, the plan has been running a surplus over the last several years. The County has utilized this surplus to fund the plan's required reserves for claims. This year, the County has experienced higher claims than in prior years, due in part to medical and pharmaceutical rates rising nationally. Therefore, the County's FY 2020/21 Health Plan Funding Projection is calling for an 8.61 percent increase. In order to maintain a sufficient and healthy balance in the trust fund, the County will increase rates to the employee and the County ranging from $3.01 to $5.36 per pay period, dependent upon the coverage selected. Increasing rates now will help offset any additional medical costs associated with medical treatment costs associated with COVID-19.

The annual cost of all benefits as a percentage of employee compensation varies widely by employee type. For example, a County employee in the ASRS retirement system receives employer paid benefits equal to 33 percent of their salary. For certain Public Safety employees, this percentage increases to as much as 95 percent of the cost of their salary.

III. GENERAL FUND ENDING FUND BALANCE: FY 2019/20

A. Positive Ending Fund Balance

The recommended General Fund ending balance for FY 2019/20 is $58,205,372. This is a projected increase of $15,080,766 over the FY 2019/20 budgeted General Fund Reserve of $43,124,606. This ending balance represents approximately 9 percent of FY 2020/21 projected General Fund revenues plus operating transfers-in. This ending fund balance is within the recommended guidelines of the Government Finance Officers Association and represents the FY 2020/21 Beginning Fund Balance.

B. Recommended Uses of General Fund Ending Balance

The information contained in Table 2 below represents my recommendations for use of the $58,205,372 of non-recurring, one-time resources, projected as the available ending balance of the General Fund on June 30, 2020.

Table 2: Recommended Allocation of FY 2019/20 General Fund Ending Balance.

Recommendation	Amount
Banner–University Medical Center South Campus	$15,000,000
State Cost Shift: Juvenile Corrections	1,726,800
State Cost Shift: Arizona Department of Revenue	780,558
General Fund Reserve	40,698,014
TOTAL	**$58,205,372**

IV. GENERAL FUND SUBMITTED BASE BUDGET: FY 2020/21

A. General Fund Base Budget Revenues (Before my recommended adjustments below)

If the current General Fund primary property tax rate of $3.9996 were to be continued into FY 2020/21, projected FY 2020/21 base budget revenues and operating transfers-in to the General Fund total $616,866,593. This is a $23,274,748 or a 3.9 percent, increase from the current year adopted budgeted revenues and operating transfers-in to the General Fund.

Below is a brief discussion of each category of projected General Fund base revenues.

1. *General Government Revenues Other Than Property Taxes*

Excluding General Fund primary property tax revenues, projected FY 2020/21 base budget General Government revenues from all other sources is $191,749,846, a $6,841,588, or 3.7 percent increase from the current Adopted Budget.

The largest revenue stream in this category – State Shared Sales Tax – is projected to increase by $5.0 million, or 4.0 percent, to $131.0 million, reflecting continued growth in the local economy. Vehicle License Tax revenue is also projected to show continued improvement next year with an overall increase of $1.2 million, or 3.9 percent.

2. *Primary Property Tax Revenues*

   a. Annual Five-percent Cap on Taxable Net Assessed Value Increases

Eight years ago, Arizona voters approved a Constitutional amendment that substantially limits future overall appreciation of the existing property tax base by setting a five percent cap on taxable net assessed value increases from year to year. Previously, the market dictated increases in taxable net assessed value.

   b. Primary Property Tax Revenues (Before recommended primary property tax rate adjustments)

The taxable net assessed value for FY 2020/21 totals $9.1 billion. This is a net increase of $410.5 million, or 4.70 percent, over the current year and represents the sixth annual increase in taxable net assessed value since FY 2009/10. This amount is the first time in eleven years that the taxable net assessed value has exceeded the FY 2009/10 amount of $9.0 million. In FY 2020/21, the market value of existing property in the County will increase by 2.99 percent. New construction will add 1.66 percent to the property tax base.

Assuming the General Fund primary property tax rate for FY 2020/21 continues at the current rate of $3.9996 per $100 of taxable net assessed value, that the resulting General Fund primary levy is $365.6 million. This is $16.4 million or 4.70 percent more than the amount levied in the FY 2019/20 year's Adopted Budget.

In addition to the collection of current year property taxes, the County receives revenue for the payment of delinquent property taxes from prior years and associated interest and penalties.

Together with the projected primary property tax collection next year, the total base General Fund property tax revenues projected for FY 2020/21 are $367.2 million. This amount is $16.1 million, or 4.60 percent more than the total General Fund primary property tax revenues adopted in the FY 2019/20 Adopted Budget. The majority of the difference between the levy amount and the revenues collected is attributable to the overall collection rate, reductions in the forecasted collections of penalties and increases in the interest on delinquent property tax collections.

The State Truth in Taxation statute determines the County's neutral primary property tax levy each year. A neutral levy and corresponding tax rate is defined as the previous year's levy plus additions to the tax base from new construction. Pursuant to statute, the County's

FY 2020/21 neutral primary rate is $3.8835 per $100 of taxable net assessed value, or $0.1161 less than the current year $3.9996 General Fund primary tax rate. The resulting neutral primary levy is $10.6 million, or 2.9 percent less than the levy produced by the current year's General Fund primary tax rate. If the current year primary rate remains unchanged, the County would be required to hold a Truth in Taxation hearing prior to the final budget adoption.

This statutory benchmark is more restrictive than the County's Maximum Allowable Primary Levy Limit imposed by the Arizona Constitution, which is indexed to reflect a modest annual rate of inflation of two percent. The Maximum Allowable Primary Levy Limit imposed by the Arizona Constitution allows the County's primary rate to be increased to $5.0770, or $1.0774 higher than the current year's General Fund rate. The resulting constitution capped levy is $464.1 million, which is $98.5 million, or 26.9 percent greater than the levy produced by the current year's primary property tax rate.

The above discussion assumes that the General Fund primary property tax rate will remain unchanged from FY 2019/20. As I have indicated earlier in this memorandum, I will be proposing to adjust the FY 2020/21 General Fund property tax rate by $0.0282 per $100 of taxable net assessed value to $4.0278. This discussion can be found in Section VI below.

3. *Departmental Revenues*

Base budget General Fund revenues from departments and operating transfers-in for FY 2020/21 are projected to total $57.9 million. This is a $0.3 million net increase from the current year's budget.

Significant increases/decreases in base General Fund departmental revenues and operating transfers-in include the following:

- $9.6 million reduction in operating transfer-in from Fleet Services.
- $1.8 million increase in loan payment from Catalina Foothills School District.
- $1.6 million increase in loan payment from University of Arizona.
- $1.6 million operating transfer-in loan payment from Development Services.
- $1.5 million operating transfer-in Grant indirect cost reimbursement.
- $1.5 million operating transfer-in loan payment from Information Technology.
- $1.0 million operating transfer-in from Capital Projects.
- $700 thousand operating transfer-in loan payment from Wireless Integrated Network.
- $283 thousand increase in recording fee revenue from the Recorder.

4. *General Fund Submitted Base Budget Expenditures (Before my recommended adjustments below)*

The amount required in FY 2020/21 to fund department submitted General Fund-supported base budgets for both expenditures and transfers-out is $617.7 million. This base amount represents FY 2019/20 adopted departmental budgets adjusted for increased benefit costs, grants match, impacts to base costs pursuant to Board adopted budget policies and prior directives, and decreases in base one-time expenditures in the current year. Details regarding specific base expenditure adjustments can be found in the individual department analyses that follow this memorandum.

B. County Staffing

Over the past several years, Pima County has taken significant actions to maintain an effective and efficient workforce while incrementally reducing unnecessary or redundant positions primarily through attrition.

The overall County workforce has shrunk by over 1,206 Full-Time Equivalents (FTEs), or 14 percent from peak staffing in FY 2007/08, as shown in Table 3 below. In addition to decreases in staffing, the County instituted significant changes in the way it budgets and accounts for vacant positions and staff turnover. Staffing is also controlled by having departments budget only for positions they can reasonably expect to fill during the course of the fiscal year. For FY 2020/21 departmental budgets have been decreased by three percent in personnel services.

FY 2020/21 total budgeted FTEs increased by a net of 78 from FY 2019/20. The majority of the increase in FTEs occurs in the General Fund. The increase represents the net of various increases and decreases in the funded FTE counts within the various County departments. Descriptions of changes in the number of FTEs are included in the individual department descriptions in this book.

The FTEs included in Table 3 do not reflect the three percent attrition reduction in personnel services. 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.

Table 3: Total Budgeted FTE Positions, FY 2007/08 Adopted Budget through FY 2020/21 Recommended Budget			
Fiscal Year	**Budgeted FTEs**	**Change in Budgeted FTEs**	**Cumulative Change in Budgeted FTEs**
2007/08	8,396		
2008/09	8,113	(283)	(283)
2009/10	7,838	(275)	(558)
2010/11	7,753	(85)	(643)
2011/12	7,361	(392)	(1,035)
2012/13	7,314	(47)	(1,082)
2013/14	7,329	15	(1,067)
2014/15	7,255	(74)	(1,141)
2015/16	7,061	(194)	(1,335)
2016/17	7,114	53	(1,282)
2017/18	7,056	(58)	(1,340)
2018/19	7,129	73	(1,267)
2019/20	7,112	(17)	(1,284)
2020/21	7,190	78	(1,206)

V. RECOMMENDED ADJUSTMENTS TO GENERAL FUND BASE EXPENDITURES

Table 4 below details the FY 2020/21 expenditure adjustments required to fund Banner University Medical Center, additional ongoing State-related cost shifts and fully fund a 6.8 percent General Fund Budget Reserve.

Table 4: Recommended Adjustments to FY 2020/21 Submitted Base Expenditures and Operating Transfers-out.	
Proposed FY 2020/21 Base Expenditures and Operating Transfers-out	**$617,746,299**
Banner-University Medical Center South Campus	15,000,000
Ongoing State Cost Shifts – Juvenile Corrections	1,726,800
Ongoing State Cost Shifts – Arizona Department of Revenue Costs	780,558
Fund 6.8 Percent General Fund Budget Reserve	42,334,544
Total FY 2020/21 Recommended Expenditures and Operating Transfers-out	**$677,588,201**

The Recommended General Fund budget totals $677,588,201 and consists of $626,540,998 expenditures and $51,047,203 operating transfers-out to other County departments and funds.

I am also recommending a General Fund Budget Reserve of $42,334,544. This amount represents 6.8 percent of recommended revenues and operating transfers-in. This reserve meets the Government Finance Officers Association recommendation of a minimum set aside and retains a reserve capacity for any emergency funding during the course of the coming fiscal year.

VI. RECOMMENDED ADJUSTMENT TO GENERAL FUND SUBMITTED BASE REVENUES

A. Increase General Fund Primary Property Tax Rate by $0.0282

The FY 2020/21 General Fund primary property tax rate of $4.0278 per $100 of taxable net assessed value is an increase of $0.0282 from the FY 2019/20 rate of $3.9996. As directed in the Board of Supervisors Policy D 22.12 General Fund Capital Improvement Fund Pay-As You-Go Program, the proposed General Fund primary property tax levy was calculated using sixty percent of both the decrease in the current secondary tax rate and of the increase in tax base to fund capital improvement projects while the remainder of the unobligated tax value reduced the combined tax rate. This portion of the primary tax levy amount will be used to fund Transportation Pavement Preservation projects, as well as, other capital projects within the General Fund Pay-As-You-Go program. For more information on the Pay-As-You-Go Program, see Section VII B.

The net impact due to the implementation of the Pay-As-You-Go program on the General Fund primary property tax rate is an increase of $0.0282 per $100 of taxable net assessed value from the FY 2019/20 rate of $3.9996 to $4.0278.

Table 5: Recommended Adjustments to FY2020/21 Submitted Base Revenues and Operating Transfers-in

Proposed FY 2020/21 Base Revenues and Operating Transfers-in	**$616,866,593**
$0.0282 Increase in the General Fund Primary Property Tax Rate (now $3.9996)	2,516,236
Total FY 2020/21 Recommended Revenues and Operating Transfers-in	**$619,382,829**

As I mentioned in Section IV.A.2.b above, State Truth in Taxation statutes determines the County's neutral combined primary property tax levy each year. If the General Fund primary property tax rate remained the same as in FY 2019/20, the General Fund primary property tax rate would total $3.9996 per $100 of Taxable Net Assessed Value. The FY 2020/21 Truth in Taxation, tax rate is $3.8835. Therefore, the proposed General Fund primary property tax rate of $4.0278, would result in the General Fund primary rate being $0.1443 over the Truth in Taxation rate. Thus, if the recommended primary property tax rate is adopted by the Board, the County will be required to hold a Truth in Taxation Hearing for the primary property tax prior to the final budget adoption.

VII. THE OVERALL BUDGET

A. Special Districts and Debt Service

1. *County Library District*

The Library District is funded by a dedicated secondary property tax and serves the entire County. In FY 2020/21, the Pima County Public Library budget includes the operation of a

Main Library, 25 branches, a nonprofit support center, a bookmobile and online services, including a dynamic web portal, Infoline, "Ask a Librarian," online homework help, employment and career help, full-text magazine and journal articles and downloadable e-books, audiobooks, video and music.

The Library has a collection of 1.2 million catalogued items, which will be borrowed 7 million times in the course of a year. The Library provides 1,200 computers that generate 1.5 million computer sessions by the public and welcomes on average 5.5 million visitors through its doors annually. The Library offers an increasing number of digital items to its patrons, including e-books and downloadable audiobooks, as well as streaming video. Community groups use library facilities to hold meetings of civic and educational interest and these facilities are gathering places where people interact, share information and engage in creating content through 21st Century Skills.

The County Library District property tax base is increasing for the sixth year in a row. The tax base is projected to increase 4.70 percent in FY 2020/21.

The FY 2020/21 Recommended Budget for operating costs, grants and operating transfers-out is $51,868,260. The budget will fund increased operating expenses for salaries and benefits, other internal service charges and maintenance costs.

For the second budget year, $0.0400 cents of the Library tax rate is dedicated for PAYGO capital facilities. The library at the Southeast Regional Park at Houghton Road and Mary Ann Cleveland Way and the new Sahuarita Library will be the first facilities built using this funding strategy. In total, four PAYGO Capital improvement Projects are scheduled in FY 2020/21. In addition to the two previously mentioned projects, Library capital improvement projects include Martha Cooper Library Expansion and Library Network Improvements.

I recommend that the FY 2020/21Library District secondary property tax rate remain at $0.5353 per $100 of taxable net assessed value. The recommended tax rate is projected to provide $48,479,458 in revenues that will be supplemented by a projected $1,949,500 from fines, interest, grants and miscellaneous revenue and $1,439,302 from the Library District fund balance in order to meet the recommended overall budget of $51,868,260. <u>The primary reason I am recommending the Library District tax rate remain the same as last year is because of contracted PAYGO Library projects.</u>

2. *Debt Service Fund*

The total Recommended FY 2020/21 Debt Service Fund budget is $118,515,443, a $10,653,559 increase from the current fiscal year. The Debt Service Fund includes payments on the County's General Obligation debt, the Street and Highway Revenue Bond debt, and Certificates of Participation debt, the majority of which is long-term debt.

a. General Obligation Debt Service

The County's General Obligation Debt Service is funded by a secondary property tax levy. For FY 2020/21 the General Obligation Debt Service secondary property tax rate is reduced to $0.5200 per $100 of taxable net assessed value, a $0.1700 reduction from FY 2019/20. The rate decrease is in line with the direction provided in the Board of Supervisors Policy for the General Fund Capital Improvement Fund Pay-As-You-Go Program. The FY 2020/21 recommended General Obligation debt service of $47,595,222, a decrease of $12,926,005 from FY 2019/20, will fund the existing debt service.

As originally planned when the 1997 Bond Program began, the debt service on new bond sales supported by the secondary tax levy was being offset by ongoing reductions in debt service for existing outstanding bonds. As the 1997 bonds were being retired, 2004, 2006, and 2014 bonds were sold, incurring new debt. The County issued the final General Obligation Bond Authorization in FY 2016/17. All General Obligation debt is projected to be completely paid off in FY 2028/29.

b. Street and Highway Revenue Debt Service

The 1997 Transportation Bond authorization provides for the sale of Street and Highway Revenue bonds with the debt service being repaid from the HURF revenues the Transportation Department receives from the State of Arizona. The recommended Street and Highway Revenue Bond debt service of $16,193,242, a decrease of $1,900,375 from FY2019/20, will fund the existing debt service.

c. Certificates of Participation Debt Service

The Certificates of Participation (COPs) debt service of $54,726,979, an increase of $25,479,939 from FY 2019/20, includes COPs issued in prior years for the acquisition or construction of County facilities such as the Public Service Center, the Fleet Services Facility, the Historic Courthouse, Transportation Local Road Repair Program and various sewer projects. The COPs debt service is paid from funds other than the General Obligation debt service tax levy. The significant increase is related solely to the PAYGO program where all expenses are paid within three years to comply with budget expenditure limitations.

d. Sewer Debt Service

In addition to the debt service included in the Debt Service Fund, Pima County has additional debt service in the Regional Wastewater Reclamation Enterprise Fund. This debt service is paid for with sewer system revenues with no impact on the overall Debt Service Tax Rate. As of June 30, 2020, the amount of outstanding sewer revenue debt will be $453,890,000. In addition to this sewer debt, another $4,831,790 of the remaining County debt consists of COPs issued to pay for sewer projects. In total, debt for sewer infrastructure is approximately 53 percent of all County debt.

e. Overall Pima County Debt

Pima County issues four types of investment debt: General Obligation Bonds, Street and Highway User Revenue Bonds, Sewer Revenue Debt and Certificates of Participation. The County's investment debt is not a traditional long-term debt. Rather, it is relatively short-term debt and always limited to 15-year repayment schedules.

Pima County's investment debt peaked in FY 2012/13 at $1.35 billion from all sources. Because the County limits its investment debt to 15-year repayment schedules, at the end of FY 2019/20 current investment debt will be reduced to approximately $855.7 million. It is anticipated that total debt at the end of FY 2020/21 will equal $807.2 million including three new debt issues budgeted in FY2020/21 for $111 million. This is a 40.2 percent reduction in just eight years.

3. Regional Flood Control District

For the sixth consecutive year, the value of the Regional Flood Control District (RFCD) property tax base is forecasted to increase. The RFCD taxable net assessed value will increase 5.59 percent in FY 2020/21.

The recommended operating budget for the two components of the RFCD is $16,644,303, a net decrease of $269,910 from the current year budget. This amount includes $16,188,803 for Flood Control Operations and $455,500 of expenditures related to the Canoa Ranch In-Lieu Special Revenue Fund. The department has one grant, Invasive Plant Species, in FY 2020/21.

The RFCD recommended budget also includes operating transfers-out totaling $12,080,531, a decrease of $5,709,071 from the current year. These transfers include the following:

- $11,500,000 transfer to the Capital Projects Fund to fund the District's Pay-As-You-Go Capital Improvement Program.
- $280,000 to the Regional Flood Control District Grant for Invasive Plant Species.
- $189,602 to the Stadium District for operating and maintenance costs of the Kino Environmental Restoration Project.

- $80,000 in funding for the County's Native Plant Nursery.
- $20,000 in funding for Tucson Clean and Beautiful.
- $10,929 in Indirect Cost reimbursements to the General Fund.

I recommend the RFCD FY2020/21 secondary property tax rate remain at $0.3335 per $100 of taxable net assessed value primarily because of the large capital transfer to ongoing capital projects.

B. Pay-As-You-Go Capital Improvement Funding (PAYGO)

For FY 2020/21, I will continue to fund capital improvements using Pay-As-You-Go (PAYGO) Capital Financing. As directed in the Board of Supervisors Policy D 22.12 General Fund Capital Improvement Fund Pay-As-You-Go Program, the current budget includes $18,784,651 in funding for the PAYGO Program for capital improvement projects. This funding was calculated using sixty percent of both the decrease in the current secondary tax rate and the increase in the tax base while the remainder of the unobligated tax value reduced the combined tax rate. The goal of the PAYGO program is to provide additional funding to repair our roads within 10 years, provide additional funding for other General Fund capital improvement projects as approved by the Board, reduce taxes spent on debt interest payments, and reduce the combined County property tax rate. This program is predicated on the general obligation bond debt repayment schedule being rapidly paid over the next several years that reduces the draw on the secondary tax rate.

PAYGO is an overall capital improvement plan (CIP) budget policy that is also being applied to non-general fund departments. This consistent approach enables the CIP to be funded with less long term debt costs and structured within a sustainable framework. The transition of Library and Regional Flood Control District (RFCD) capital programs to the PAYGO program is complete. As mentioned above, the Library has $0.0400 cents of its tax rate permanently dedicated for PAYGO capital facilities. Through this effort, the libraries at the Southeast Regional Park off Houghton Road and Mary Ann Cleveland Way and the new Sahuarita Library will be the first facilities built using this funding strategy. In addition, $0.0400 of the Regional Flood Control tax rate was also dedicated to PAYGO capital projects. These funds are being used to complete the Regional Flood Control Projects mentioned in Section VII.D.1.

RWRD has also transitioned to a PAYGO model during the current fiscal year. This model incorporates using the savings from debt repayment over time to fund RWRD's ongoing capital needs in order to maintain stability in their revenue stream and reduce the cost of long-term debt to the ratepayer. RWRD has dedicated five million annually toward their PAYGO program and shortened their debt schedules to 10 years for all future debt issuances.

The transition plan to PAYGO Capital Funding will eventually use the secondary property tax to fund the capital program with the debt service payment at a zero dollar level (once the General Obligation Bond Debt is fully retired). Annual capital financing will continue to use short-term three-year limit debt instruments to ensure the County does not exceed the constitutionally imposed expenditure limit. In other words, after all of the County debt has been retired we will continue to see Certificates of Participation issued for short-term debt. The use of long-term Certificates of Participation will also continue to be used for larger scale capital projects, such as the upcoming required projects to replace the failing exterior façades of the administration complex buildings due to age. These long-term debt instruments are currently advantageous funding strategies due to low interest rates. Table 6 below shows the secondary property tax levy for debt service for FY 2020/21 if the primary property tax rate remained at the $4.0278.

Table 6: FY 2020/21 Pay-As-You-Go General Fund Primary Tax Levy.

	FY 2020/21
Debt Service[1] Secondary Tax Collection Rate	0.52
Secondary Tax Levy Decrease[2]	0.17
60% of Decrease[3]	0.102
Primary PAYGO Levy by Fiscal Year	$9,101,277
Primary Growth PAYGO 60% of NAV Increase	9,683,374
Total Available for Pay as you go[4]	**$18,784,651**

[1] Secondary property tax rate necessary to pay principal and interest payments for all County outstanding general obligation bond debt.

[2] Year to year secondary debt service tax rate difference.

[3] As the debt service tax rate decreases sixty percent of the decrease will be used to build the PAYGO general fund in the primary tax levy. The remaining forty percent will be used to decrease the overall County tax rate.

[4] Annual amounts per fiscal year available in the PAYGO fund.

In FY 2019/20, Transportation's Pavement Preservation program received an additional $10 million in General Fund funding. This was in addition to the $5 million allocated in the FY 2019/20 Budget. Therefore, in FY 2020/21, the General Fund and Pavement Preservation will receive $5 million each in PAYGO funding. This will bring Pavement Preservation PAYGO funding to a total of $20 million over the past two years.

PAYGO projects budgeted within the Capital Projects Fund include $8,784,651 in proposed PAYGO funds. Projects considered for use of this funding source were defined via the Integrated Infrastructure Plan that identified capital needs throughout the County. A prioritization matrix was used as outlined below in Table 7. Projects selected to use PAYGO funding met two or more of these major benefit areas. These funds have been applied to projects within Community and Workforce Development, Kino Stadium District, Parks and Recreation, Public Works, and Facilities Management. Projects selected were fully funded by this year's PAYGO allocation even if they are planned over multiple years.

Table 7: Prioritization Matrix to Prioritize Projects Across Departments

Benefit	Key Goal
Safety, Regulatory Compliance, Risk Avoidance, Emergency Response	SAFETY
Depreciation, Life Cycle, Age of Facility	LIFE CYCLE
Return on Investment, Cost-benefit Analysis, Operating Cost, Maximize Previous Investment, Integrated Facilities	ROI
Environmental Protection, Community Health, Changing Public Needs, Future Compliance Need	COMMUNITY
Economic Development, Regional Needs, Partnerships, Public Expectation, Administrative Directive	ECONOMIC
Level of Service, Capacity Needs, Community Enhancement	CAPACITY

C. Pavement Preservation and Repair Funding for Local Roads

The FY2020/21 Transportation Department budget will contain specific funding for Pavement Preservation and Repair Contracts. For Fiscal Year 2020/21, a combined allocation of $24 million ($21 million under the Pavement Preservation and Repair Contracts and $3 million under the Construction Project line items within the Transportation's operating budget). This is a significant investment in road repair and pavement rehabilitation.

D. Annual Capital Projects Fund Budget and Capital Improvement Plan Budget

As set forth in Table 8 below, the FY 2020/21 recommended Capital Improvement Plan of $165,933,179 consists of the Capital Projects Fund Budget of $111,438,341, Capital Projects of Regional Wastewater Reclamation of $45,150,000, Information Technology – Internal Service Fund of $7,004,000, and Fleet Services of $2,340,838. A complete list of projects for the Recommended Capital Improvement Plan is included in the Capital Projects section of this Recommended Budget Book.

Table 8: FY 2020/21 Recommended Capital Improvement Plan						
	FY 2019/20 Bond and Non-Bond Project Budgets	**FY 2020/21 Bond and Non-Bond Project Budgets**	**Difference**	**1997 Bonds**	**2004/ 2014 Bonds**	**Non-Bonds**
Capital Projects Fund						
Transportation	$53,146,979	$33,355,097	($19,791,882)	$7,161,593	$ -	$26,193,504
Facilities Management	41,178,398	49,641,231	8,462,833	-	651,332	48,989,899
Kino Sports Complex	14,427,083	1,650,000	(12,777,083)	-	-	1,650,000
Flood Control District	18,996,947	16,000,000	(2,996,947)	-	-	16,000,000
Parks and Recreation	2,125,330	2,898,013	772,683	-	-	2,898,013
Information Technology	262,000	5,264,000	5,002,000	-	-	5,264,000
Community and Workforce Development	-	460,000	460,000	-	-	460,000
Environmental Quality	-	20,000	20,000	-	-	20,000
Public Works Administration	1,200,000	500,000	(700,000)	-	-	500,000
Office of Sustainability and Conservation	-	1,650,000	1,650,000	-	-	1,650,000
Total Capital Projects Fund	**$131,336,737**	**$111,438,341**	**($19,898,396)**	**$7,161,593**	**$651,332**	**$103,625,416**
Wastewater Reclamation	48,001,306	45,150,000	(2,851,306)	-	-	45,150,000
Fleet Services	3,197,199	2,340,838	(856,361)	-	-	2,340,838
Information Technology - Internal Service Fund	19,550,000	7,004,000	(12,546,000)	-	-	7,004,000
Total Capital Improvement Plan	**$202,085,242**	**$165,933,179**	**($36,152,063)**	**$7,161,593**	**$651,332**	**$158,120,254**

1. *Capital Projects Fund Budget*

The recommended $111,438,341 Capital Projects Fund Budget for FY 2020/21 is a decrease of $19,898,396, or 15.2 percent, from the current year's budget of $131,336,737.

Of the total Capital Projects Fund, $7,161,593 is funded through 1997 bonds, $651,332 is funded through 2004/2014 bonds and the remaining $103,625,416 is funded through other non-bond sources including State Revenue, Regional Transportation Authority (RTA) Sales Taxes, Impact Fees, Grants, Certificates of Participation (COPs), and General Funds.

The Department of Transportation has budgeted $33.4 million for 22 projects. The projects include $7.8 million for Kolb Road (Sabino Road to Sunrise Drive), $7 million for Valencia

Road (Houghton Road to Old Spanish Trail), and $5.4 million for Broadway Boulevard (Euclid Avenue to Country Club Road). Funding for the FY 2020/21 Department of Transportation Capital Program consists of $11.1 million in Grants, $7.2 million in 1997 HURF Bonds, $7 million in COPs, $3.7 million in Impact Fees, $1.9 million in RTA Funding, $1.2 million in City Revenue and $1.3 million from various other funding sources.

Facilities Management has budgeted $49.6 million for 26 projects. This year's recommended budget includes $6.3 million for the restoration of the Historic Pima County Courthouse, $4.9 million for the Northwest County Service Center, $4.4 million for the Defense Services Building (Juvenile Courts), and $4.1 million for security replacements at the Adult Detention Center, all funded by COPs.

Regional Flood Control District has budgeted $16 million for 18 projects, including $3 million for Urban Drainage, funded with Tax Levy Revenue, $2 million for CDO Wash North Bank (Thornydale to I-10) funded with Tax Levy Revenue and developer funds, and $1 million each for the following projects, all funded with Tax Levy Revenue: Floodprone Land Acquisitions, Historic Canoa Ranch Restoration, El Rio Preserve Bank Protection, Major Watercourse Infrastructure Management, Santa Cruz River Living River Management Plan, improvements to the Santa Cruz River (Irvington Road to Drexel Road), and Santa Cruz River Maintenance Projects.

2. *Regional Wastewater Reclamation Capital Budget*

The FY 2020/21 recommended capital budget for the Regional Wastewater Reclamation Department (RWRD) is $45,150,000, a decrease of $2,851,306 from FY 2019/20. The FY 2020/21 capital program is planned to be funded with RWRD Obligations. Conveyance projects total $31.5 million, including $11.3 million for augmentation of the Old Nogales Interceptor and $9.2 million for Minor Rehabilitation Projects. Treatment projects total $13.3 million and include $5 million for System-wide Treatment Rehabilitation, $3.7 million for an Anammox Treatment Process project, and $2.7 million for a Biogas Cleaning and Utilization Project.

3. *Fleet Services Capital Budget*

The FY 2020/21 recommended capital budget for Fleet Services is $2,340,838, a decrease of $856,361 from FY 2019/20. The recommended budget includes $1.6 million for the Ina Road Fuel Island that will be funded through Fleet Operations.

4. *Information Technology - Internal Service Fund Capital Budget*

The FY 2020/21 recommended capital budget for Information Technology - Internal Service Fund is $7,004,000, a decrease of $12,546,000 from FY 2019/20. The recommended budget includes $3.0 million for Server Storage that will be funded through Information Technology - Internal Service Fund Operations.

VIII. COMBINED TOTAL COUNTY BUDGET

A. Combined County Property Tax Rate and Levy

The combined primary and secondary property taxes levied by the County fund 37 percent of the total County Recommended Budget expenditures. These are the only County revenues over which the Board has substantial control. The remainder of the County budget is supported almost entirely by charges for services and intergovernmental revenues, primarily State revenue sharing and grants.

As discussed in Section VI above, it is recommended that the County's General Fund primary property tax rate be increased by $0.0282 cents from the FY 2019/20 rate of $3.9996 per $100 of taxable net assessed value to $4.0278 per $100 of taxable net assessed value. Pursuant to State Truth in Taxation statutes, the levy produced by the General Fund primary tax rate will exceed the neutral primary levy. A Truth in Taxation hearing will be required to be noticed and held at the same time as Final Budget Adoption. The County's FY 2020/21 neutral levy tax rate is $3.8835 per $100 of taxable net assessed value.

The County controls three secondary property tax rates and their associated levies: Library District, RFCD and Debt Service. It is recommended the Debt Service property tax rate be decreased by $0.1700 per $100 of taxable net assessed value, the RFCD and the Library property tax rates will remain the same. The net of these changes in the secondary property tax rates and increased taxable net assessed values will produce a $9.03 million reduction in secondary tax levies in FY 2020/21.

The RFCD and the Library District secondary property tax levies are subject to Truth in Taxation requirements similar to those in place for the County's primary property tax levy as described above. The impact to each district is as follows:

The Library District's FY 2020/21 neutral secondary property tax rate is $0.5198 per $100 of taxable net assessed value. The secondary property tax rate being recommended is $0.5353 per $100 of taxable net assessed value. If the Board adopts the recommended property tax rate, pursuant to statute, the Library District will be required to issue a Truth in Taxation Notice and hold a Truth in Taxation public hearing prior to the final budget adoption.

The RFCD FY 2020/21 neutral secondary property tax rate is $0.3198 per $100 of taxable net assessed value. The secondary property tax rate being recommended is $0.3335 per $100 of taxable net assessed value. If the Board adopts the recommended property tax rate, pursuant to statute, the RFCD will be required to issue a Truth in Taxation Notice and hold a Truth in Taxation public hearing prior to the final budget adoption.

The result of these recommendations is a combined County property tax rate of $5.4166 per $100 of taxable net assessed value, a decrease of $0.1418 from the FY 2019/20 tax rates. The FY 2020/21 recommended primary and secondary County tax rates are summarized in Table 9 below.

Table 9: Combined Recommended County Property Tax Rate			
Description	**FY 2019/20 Adopted Rates**	**FY 2020/21 Recommended Rates**	**Difference**
General Fund Primary	$3.9996	$4.0278	$0.0282
Library District	0.5353	0.5353	-
Debt Service	0.6900	0.5200	(0.1700)
RFCD	0.3335	0.3335	-
TOTAL	**5.5584**	**5.4166**	**(0.1418)**

For the sixth time in last ten years, the value of the County's overall property tax base will increase next fiscal year. Consequently, the rates recommended above will be applied to a primary tax base that is 4.70 percent more than the current year base and to secondary tax bases that range from an increase of 4.70 percent (Debt Service and Library District) to an increase of 5.59 percent (RFCD). These net increases in the tax base, combined with recommended primary and secondary property tax rates, result in the recommended combined County property tax levies increasing by $9,965,604, or 2.1 percent, more than the current year levies as shown in Table 10 below.

Table 10: Combined Recommended County Property Tax Levy			
Description	**FY 2019/20 Adopted Levies**	**FY 2020/21 Recommended Levies**	**Difference**
General Fund Primary	$349,163,676	$368,158,074	$18,994,398
Library District	46,731,502	48,928,700	2,197,198
Debt Service	60,236,758	47,530,215	(12,706,543)
RFCD	26,495,639	27,976,190	1,480,551
TOTAL	**$482,627,575**	**$492,593,179**	**$9,965,604**

B. Combined County Budget

The FY 2020/21 Combined Recommended County Expenditure Budget is reflected in the budget schedules and departmental budget summaries that follow this memorandum totals $1,345,458,713 and is $34,641,173, or 2.6 percent increase from the FY 2019/20 Adopted Budget of$1,310,817,540.

IX. POST-COVID-19 RECOMMENDATIONS

As discussed on page 1 of this Transmittal Letter, the Coronavirus Pandemic has had a devastating impact on our local economy, forcing many businesses to close and canceling many if not all scheduled events for the unforeseeable future. These closures and cancellations have had and will continue to have a negative impact on the State shared sales tax and other revenues which we rely on to fund the County programs.

A. Positive Ending Fund Balance: FY 2019/20

For FY 2019/20 (this fiscal year), we are currently estimating a reduction in General Fund State Shared Revenues totaling $15.0 million. Therefore, the Beginning Fund Balance will fall short from what was originally presented in the pre-COVID-19 Budget. To offset this loss in revenues, I have de-obligated $15.0 million from the Facilities Capital Program for Exterior Repair and Modifications within County Buildings. Thus, returning $15.0 million back to the General Fund and making any necessary changes to operating transfers and the Capital Improvement Plan budget.

Table 11: Beginning Fund Balance - Post-COVID-19	
Pre-COVID-19 Beginning Fund Balance	$ 58,205,372
Reduction in General Fund State Shared Revenues	(15,000,000)
De-obligate $15.0 million from the Facilities Capital Program	15,000,000
Post-COVID-19 Beginning Fund Balance	$ 58,205,372

B. General Government Revenues Other Than Property Taxes

For FY 2020/21, we are currently estimating a reduction in General Fund State Shared Revenues, such as sales taxes, hotel bed taxes, car rental taxes and related shared revenues totaling $24.6 million. These decreases in revenues will result in a reduction in the General Fund's ending fund balance.

For the Transportation Department, we are also estimating a reduction in the Transportation department Highway User Revenue Funds and Vehicle License Tax of approximately $4.0 million this fiscal year, as well as, $12.0 million in FY 2020/21. Therefore, the Transportation Department will have an approximate $16.0 million budget hole 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.

C. General Fund Primary Property Tax Rate

The pre-COVID-19 Budget recommended a primary property tax rate of $4.0278 per $100 of taxable net assessed value, which is an increase of $0.0282 from the FY 2019/20 rate of $3.9996. This was increased to fully implement the Board of Supervisors Policy D 22.12 General Fund Capital Improvement Fund Pay-As-You-Go Program (PAYGO). Due to the economic downturn in the economy, I am recommending that the Board of Supervisors defer the property tax growth component of the PAYGO Program for at least FY 2020/21, with the hopes that the COVID-19 pandemic will have passed and will be able to restart in FY 2021/22. This will decrease the primary property tax rate from $3.9996 to $3.9220 and significantly lower the combined property tax rate by approximately $0.25 per $100 of assessed value or more. It will also result in only a $295,034 increase or less than 0.1 percent in the combined County property tax levy.

Table 12: Combined Recommended County Property Tax Rate

Description	FY 2019/20 Adopted Rates	FY 2020/21 Pre-COVID-19 Recommended Rates	FY 2020/21 Post-COVID-19 Recommended Rates	Difference between FY 2019/20 Adopted and Post-COVID-19 Rates
General Fund Primary	$3.9996	$4.0278	$3.9220	($0.0776)
Library District	0.5353	0.5353	0.5353	-
Debt Service	0.6900	0.5200	0.5200	(0.1700)
RFCD	0.3335	0.3335	0.335	-
TOTAL	**5.5584**	**5.4166**	**5.3108**	**(0.2476)**

It will also result in only a $295,034 increase or less than 0.1 percent in the combined County property tax levy.

Table 13: Combined Recommended County Property Tax Levy

Description	FY 2019/20 Adopted Levies	FY 2020/21 Pre-COVID-19 Recommended Rates	FY 2020/21 Post-COVID-19 Recommended Rates	Difference between FY 2019/20 Adopted and Post-COVID-19 Rates
General Fund Primary	$349,163,676	$368,158,074	$358,487,504	$9,323,828
Library District	46,731,502	48,928,700	48,928,700	2,197,198
Debt Service	60,236,758	47,530,215	47,530,215	(12,706,543)
RFCD	26,495,639	27,976,190	27,976,190	1,480,551
TOTAL	**$482,627,575**	**$492,593,179**	**$482,922,609**	**$295,034**

Due to the downturn in the local economy, I also recommend that the post-COVID-19 Budget include an increase of approximately $5.0 million to account for additional property tax delinquencies in FY 2020/21.

D. Pay-As-You-Go Capital Improvement Funding (PAYGO)

By decreasing the tax rate from $4.0278 to $3.9220, I also recommend the deferral of the PAYGO capital program. This means the PAYGO funds that would have been transferred to pavement repair or certain capital projects will not occur in FY 2020/21; therefore, increasing the amount retained in the General Fund's ending fund balance.

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.

E. Pavement Preservation and Repair Funding for Local Roads & PAYGO Projects

The FY2020/21 Transportation Department pre-COVID-19 budget contains a combined allocation of $24 million for Pavement Preservation and Repair Contracts. I recommend the Transportation Department increase this program from $24 million to $50 million for FY 2020/21 and utilize Certificates of Participation as an additional funding source.

This will allow Pima County to make a $50 million investment in the program for FY 2020/21. This borrowing will only be 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.

F. General Fund Submitted Base Budget Expenditures

To offset General Fund revenue losses caused by the COVID-19 pandemic for the FY 2020/21 Recommended Budget, departmental budgets have already been decreased by three percent in personnel services, seventy five percent in out-of-state travel and training and fifteen percent in various operating supplies. In addition, each department has been asked to prepare a five percent expenditure reduction contingency plan to be considered if economic conditions continue to deteriorate. Based on the current economic conditions, I have selectively implemented this contingency plan to build a COVID-19 fund balance contingency. This five percent reduction consisted of a reduction in vacancy savings, operating supplies and services and operational capital expenditures. This reduction will result in a decrease in departmental expenditure budgets by approximately, $39 million, of which, $24 million is in the General Fund. 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.

G. General Fund Budget Reserve

The post-COVID-19 recommendations above will result in an Ending Fund Balance of approximately $40.7 million, or 7.0 percent of recommended General Fund revenues and operating transfers-in.

Table 14: Post-COVID-19 General Fund Budget Reserve	
Pre-COVID-19 General Fund Budget Reserve	$ 42,334,544
Reduction in General Fund State Shared Revenues	(24,625,280)
Change in property tax levy from $4.0278 to $3.9220	(9,670,570)
Change in delinquency rate	(5,000,000)
Deferral of PAYGO funding transfers	13,784,651
Departmental 5% reductions	23,864,748
Ending Fund Balance Reserve	$ 40,688,093

H. Add Back of Federal COVID-19 Revenues

Expense increases for COVID-19 began in March of this year. The federal CARES Act allows for reimbursement of these expenses. We are now estimating the amount of those reimbursements. Once determined they will be included in the final tentative budget adoption as additions to the ending fund balance.

I. Increased Fund Balance for Period 9 Expenditure Freeze

To prepare for significant revenue losses related to COVID-19, I instructed staff to freeze Period 9 expenditures which means certain previously budgeted expenditures will not occur. Therefore, possibly increasing the fiscal year 2019/20 ending fund balance. It is unlikely we will have revised projections on this action until after the tentative budget is adopted hence if these additional revenues materialize they will not be included in the fiscal year 2020/21 budget but will help buffer unanticipated expenditures during the fiscal year.

J. Quick View of Offsetting a $70 Million General Fund and HURF/VLT Revenue Loss or Expense Increase.

Table 15: Summary

Revenue Losses/Expense Increases	Amount	Amount	Offset By
FY 2019/20 State Shared Revenues	$ 15,000,000	$ 15,000,000	De-obligate Facilities Capital
FY 2020/21 State Shared Revenues	24,600,000	24,000,000	5% General Fund Reductions
Property Tax Delinquency	5,000,000	17,500,000	Fund Balance
Stadium District Events Cancelled	2,000,000		
Increases State Cost Transfers	8,500,000		
Sub-Total	$ 55,100,000	$ 56,500,000	
FY 2019/20 HURF/VLT Revenues	$ 4,000,000		COPs for Pavement Repair
FY 2020/21 HURF/VLT Revenues	12,000,000		
Total	$ 71,100,000		

c: Jan Lesher, Chief Deputy County Administrator
Carmine DeBonis, Deputy County Administrator for Public Works
Francisco Garcia, MD, MPH, Deputy County Administrator & Chief Medical Officer, Health and Community Services
Michelle Campagne, Director, Finance and Risk Management Department
Patrick McGee, Budget Manager, Finance and Risk Management