



Board of Supervisors Memorandum

August 10, 2021

Policy Related General Fund Neutralization of State Legislature Cost Shifts and Disclosure of these Cost Shifts to Taxpayers

Background

Pima County is a political subdivision of the State and as such, we are only allowed to do what the Legislature explicitly allows the County to do. We are also subject to shifting obligations that are often the initial funding responsibility of the State and then transferred to the County in some form. The table below identifies the cost shifts that were included in our Fiscal Year 2021/22 Adopted Budget plus the estimated unbudgeted amount for the Arizona Department of Juvenile Corrections. These cost shifts are typically imposed on the county on an annual basis by the State.

FY 2021/22 Adopted Budget State Cost Transfers to Pima County	
Description	Amount Required From Pima County
Superintendent of Schools Accommodation District	\$591,446
Arizona Department of Revenue Operating Cost	780,558
Restoration to Competency	979,699
Constables – Salaries and Benefits	1,124,712
Justice Courts – JP Salaries and Benefits	1,794,747
Behavioral Health System State Contribution	3,064,936
Arizona Health Care Cost Containment System	16,670,600
Superior/Juvenile Court – Salaries and Benefits	19,650,085
Arizona Long Term Care System	44,073,400
Total	\$88,730,183

FY 2021/22 Unbudgeted Cost Transfer to Pima County	
Arizona Department of Juvenile Corrections	1,800,000
Total	90,530,183

The tendency of these cost shifts is to increase over time. This increase then must be absorbed into the County's budget. The only revenue source the Board of Supervisors has any control over is the property tax levy. Any cost shifts made by the State must be absorbed by an increase in the County property tax levy or through a reduction in other County expenditures.

The cost shifts imposed by the State are not insignificant. At \$90.5 million they constitute approximately 25 percent of our primary property tax levy. These shifts show no signs of abating over time, in fact, they have significantly increased this last Legislative Session.

On July 2, 2021, I provided the Board a [memorandum](#) indicating the latest cost shift is related to the Legislature and Governor reducing Class 1 commercial assessment ratios from 18 percent to 16 percent. This will result in a revenue loss of nearly \$18 million when fully implemented in Fiscal Year (FY) 2025/26. This loss in revenue must be made up through an increased property tax rate or by reducing County expenditures by a similar amount.

In addition, this last Legislative Session, the County emphasized the need to eliminate the Arizona Department of Juvenile Corrections cost transfer to the State's largest counties, Maricopa and Pima Counties. This levy had been enacted by the Legislature due to revenue

The Honorable Chair and Members, Pima County Board of Supervisors
Re: **Policy Related General Fund Neutralization of State Legislature Cost Shifts and
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shortfalls from the Great Recession and has been in place ever since. Initially, it was to charge counties for 25 percent of the cost of housing State juveniles in the State Juvenile Correction system. Hence, this cost transfer to counties was only done to balance the State's budget.

Several years ago, the Legislature eliminated this State cost transfer for the other 13 counties. During the Legislative process we were promised this cost transfer would be eliminated. In the State's final budget, it was not.

To discourage future unjustified State cost transfers, I would ask the Board to adopt the attached policy, which indicates that the most recent and any future State cost transfer enacted by the Legislature and signed into law by the Governor will result in an automatic action by the County to neutralize the cost shift on the County's budget.

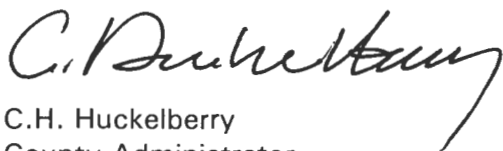
For FY 2022/23, these cost transfers are 1) the initial half-cent reduction in the Class 1 commercial assessment ratio and, 2) the Juvenile Corrections cost transfer. They add up to approximately \$5.76 million. Therefore, I will ask the Board of Supervisors to increase the primary property tax rate by 5.73 cents over what it may have been projected to be based on tax base growth and continued implementation of the present Pay-as-you-Go program.

In addition, the policy also requires that Pima County property taxpayers be advised in writing at the time the property tax bill is transmitted to them of the State cost transfers that will result in a higher Pima County primary property tax rate as well as secondary rate, if those too are affected by State cost transfers.

Recommendation

I recommend the Board of Supervisors adopt the attached policy to neutralize State cost shifts and to disclose property tax increases due to same to Pima County taxpayers.

Sincerely,



C.H. Huckelberry
County Administrator

CHH/anc – July 22, 2021

Attachment

c: Jan Leshar, 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



**PIMA COUNTY, ARIZONA
BOARD OF SUPERVISORS POLICY**

Subject: General Fund Neutralization of State Legislature Cost Shifts and Disclosure of these Cost Shifts to Taxpayers	Policy Number	Page
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Purpose

To establish Pima County policy for neutralizing the annual primary or secondary property tax levy for funding General Fund increased expenditures due to State Legislature Cost Shifts (Cost Shifts).

Policy

The Board of Supervisors supports the full disclosure of how Cost Shifts affect Pima County taxpayers. In order to neutralize cost shifts enacted by the State Legislature to Pima County, the primary property or secondary property tax rate, or both, will be increased by an equivalent amount in the budget year following the Cost Shift.

The primary or secondary property taxes to be levied annually will include a Cost Shifts component based on the sum of cost shifts enacted by the State Legislature during the prior year. This will be calculated by dividing the increase in Cost Shifts by the applicable year’s primary property tax base (Taxable Net Assessed Value of property/ divided by \$100).

An example of this calculation is shown below for an estimate of \$1 million increase in Cost Shifts using the Fiscal Year 2021/2022 primary property tax base:

	FY 2021/22
State Legislature Cost Shift	\$ 1,000,000
Primary Net Assessed Value/100	\$ 96,961,504
Change to Primary Tax Rate	\$ 0.0103

The County Administrator shall include recommendations within the annual Recommended Budget and the Tentative Budget consistent with this policy for allocations to and expenditures from the General Fund.

The County Administrator will provide a written statement regarding the Cost Shifts in or on the property tax bill sent to Pima County taxpayers describing the amount and tax impact of the Cost Shifts.

Adoption Date:

Effective Date: