



MEMORANDUM

Date: January 23, 2015

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

From: C.H. Huckelberry
County Administrator 

Re: **State Budget Impacts on County Property Taxes**

The Fiscal Year (FY) 2015/16 budget has been released by the Governor and continues the transfer of State expenses to the County.

The County's primary property tax is \$4.2779 per \$100 of assessed value and supports all County operations, including State-mandated transfer payments to support State programs. Among these are the following:

Arizona Health Care Cost Containment System (AHCCCS)

This acute indigent healthcare plan of Arizona requires specific dollar contributions to the State for operating the program. The FY 2014/15 contribution is \$17,488,764, which is equivalent to \$0.2409 of our property tax rate.

Arizona Long Term Care System (ALTCS)

This is the indigent health care program generally for Arizonans age 65 and above and those that are permanently disabled. The amount required by the State for FY 2014/15 was \$39,730,100, which is equal to \$0.5473 of our property tax rate.

State Behavioral Health System

The State provides behavioral health services through regional behavioral health organizations. The County is required to contribute, through the Arizona Department of Health Services, \$5,468,100, or \$0.0732 of our property tax rate.

Restoration to Competency

The Arizona Legislature created the Restoration to Competency program (RTC) to provide psychological treatment to individuals not mentally competent to stand trial on criminal charges. The goal of the RTC is to restore competency so the individual can stand trial. When first initiated, the cost of this program was paid entirely by the State. Over time, the State has required counties to make

contributions. This program costs Pima County \$1,998,099 in FY 2014/15, or \$0.0275 per \$100 of our primary property tax rate.

Sexually Violent Persons

Individuals convicted of a violent sexual crime are evaluated at the end of their prison sentence to determine whether they are capable of being released into the general population without posing a threat. Individuals who are determined to be a continual criminal threat to society are then confined in the Arizona State Hospital for those with serious mental illness. For FY 2014/15, the amount required to be paid by the County to the State is \$4,282,502, or \$0.0590 of our primary property tax rate.

Superior and Juvenile Court Salaries and Benefits

The State requires the Pima County General Fund to pay for various judicial- and probation-related salary and benefits costs associated with the State’s Superior and Juvenile Courts, as well as the Justice Courts and the Constables. The County is responsible for the following:

- One-half of the salaries and benefits cost of Superior and Juvenile Court Judges
- 72 percent of the salaries and benefits cost of Juvenile Court Probation and Surveillance Officers
- 30 percent of the salaries and benefits cost of Superior Court Probation and Surveillance Officers
- 100 percent of the Constables salaries and benefits cost
- 85 percent of the Justices of the Peace salaries and benefits cost

Table 1 below is a breakdown of these costs to the General Fund.

Table 1: County Costs for Superior and Juvenile Court Salaries and Benefits.

Description	FY 2014/15 General Fund Salaries and Benefits Costs
Superior Court Judges and Commissioners	\$ 4,316,620
Superior Court Probation and Surveillance Officers	4,553,493
Juvenile Court Probation and Surveillance Officers	6,262,610
Justices of the Peace (Net of Reimbursements)	1,178,462
Constables	846,609
Total General Fund Cost	\$17,157,794

The \$17,157,794 cost of these positions adds \$0.2363 per \$100 assessed value to our primary property tax rate.

Total Present County Property Tax Support to the State

As shown in Table 2 below, the total of these required State property tax transfers is \$86,125,359. This is \$1.1842 of our primary property tax rate of \$4.2779, or 27.7 percent.

Table 2: Current (and Recommended Continuing) State-mandated Cost Transfers.

Description	Amount Required from Pima County	Portion of Pima County Primary Property Tax Rate
Arizona Health Care Cost Containment System	\$17,488,764	\$0.2409
Arizona Long-term Care System	39,730,100	0.5473
State Behavioral Health System	5,468,100	0.0732
Restoration to Competency	1,998,099	0.0275
Sexually Violent Persons	4,282,502	0.0590
Superior and Juvenile Court Salaries and Benefits	17,157,794	0.2363
Totals	\$86,125,359	\$1.1842

Proposed FY 2015/16 State Budget

The Governor's FY 2015/16 budget recommends continuing these State-mandated transfers and adding new cost shifts to the County, which would require the County to levy more property taxes and transfer those taxes to the State in order to balance their budget. Among the new State requests are:

County Payments to State Juvenile Corrections

The State is proposing to charge Counties 25 percent of the average cost of incarcerating juveniles from that County and changing the eligibility requirements for referring youthful offenders to the State's Juvenile Corrections System. The State is projecting \$15 million in savings from these actions by transferring these costs to the 15 counties in Arizona. For Pima County, the estimated additional cost is \$1,163,899, or \$0.0160 per \$100 of the primary property tax rate. A number of unprecedented restrictions would also be placed on the transfer of juveniles to the State.

Highway User Revenue Fund (HURF) and the Department of Public Safety (DPS)

At this point, this proposal is largely a shell game where the State would raise the motor vehicle registration fee and use the increase to fund DPS. In FY 2016/17, it appears HURF funding would actually be reduced by \$30 million. This would decrease our HURF revenues at a time when these revenues need to be dramatically increased. However, if this new fee is part of a long-term trend to create a more stable, long-term alternate funding source for DPS and relieves HURF of this burden, some small benefit may ultimately be realized for transportation funding.

Transferring Homeowner Rebates where Primary Property Tax Rates Exceed One Percent of the Properties' Net Assessed Value

Eight school districts in Pima County are among the 27 statewide where the total primary property tax rate exceeds the one percent constitutional limit. If the State share is capped at no more than \$1 million per County, Pima County and its school districts will be disproportionately and adversely impacted compared to all other taxing jurisdictions in Arizona. The Executive's Budget Recommendation Summary uses the language "prorating the costs among the taxing jurisdictions." Does this mean all taxing jurisdictions where the rate is exceeded, which would include the school districts of the County and cities and towns? We note, but do not understand, the Pima Community College District's exclusion in the Executive Summary, since they are a taxing jurisdiction. The Executive Summary of the budget lists the County's impact at \$9 million; however, the data uses the primary property tax rate for both Pima County and Pima Community College in calculating the County's share. If the County primary property tax rate of \$4.2779 is used, its share would likely be reduced to \$7.2 million.

This proposal is particularly punitive to Pima County as compared to other counties in the State. The \$7.2 million cost would be equivalent to a property tax rate levy increase of \$0.0918 per \$100 of assessed value. This is a substantial State tax increase being imposed on the County. We are conducting an in-depth analysis of this proposal.

Recent discussions with the Governor's staff have resulted in a greater understanding on their part of the property tax history and budgetary realities of Pima County. We are cautiously encouraged about the possibility of a more equitable means of addressing this issue. We have also requested the County

Attorney review the potential constitutional issues associated with the tax burden shift created by this proposal.

Homeowners Rebate Cap

The State pays a portion of residential homeowners' school district primary property taxes via the Homeowner's Rebate included on the individual property tax statements up to a maximum of \$600 per parcel. The rate is a floating one and is currently at 43.6 percent of the Qualifying Tax Rate used in the calculation of the reimbursement. The Governor proposes to cap this rate at 44 percent in the future. The impact of this change to the taxpayer and Pima County is currently being estimated.

Restoration of ALTCS Dental

The County is mandated by the State to contribute to this program, and Pima County's share of this increase is \$141,000, or \$0.0019 per \$100 of assessed value.

Paying for Operating the Arizona Department of Revenue (AZDOR)

This proposal calls for cities, towns and counties to pay a portion of the cost of approximately 17.5 percent of operating the AZDOR, a state agency. The theory is the AZDOR collects sales and income taxes for cities, towns and counties. The County Supervisors Association estimates Pima County's cost at \$644,070, or \$0.0088 per \$100 of assessed value. This would be the first time the County is required to pay this cost. It should be noted Pima County has no direct sales tax; hence, the collection burden should be minimal.

Table 3 below summarizes the proposed new cost shifts to the County from the State to balance its FY 2015/16 budget.

Table 3: FY 2015/16 Proposed State Budget – New Cost Shifts.

Description	Amount Required from Pima County	Portion of Pima County Primary Property Tax Rate
State Juvenile Corrections	\$1,163,899	\$0.0160
Homeowner Tax Rebates	7,200,000	0.0918
Homeowner Rebate Cap	Pending	Pending
Restoration of ALTCS Dental	141,000	0.0019
AZDOR Operating Cost	644,070	0.0088
Totals	\$9,148,969	\$0.1185

Summary

The two most disappointing aspects of the proposed State budget are that first, it does not attempt to address any of the critical transportation funding problems facing the State. The proposed funding is simply a shell game to fund DPS by removing State General Fund support for that agency. There is no recognition the gas tax needs to be increased in Arizona or that transportation infrastructure is critical to our future economic expansion.

The second major disappointment are the onetime fund transfers that basically strip funds designated primarily for economic development and attraction of new jobs to Arizona and simply transfers that money to balance the State budget. The \$75 million in the Arizona Competes Fund is used by the Arizona Commerce Authority to incentivize new employers to move to Arizona; the Workforce Recruitment and Job Training Fund of \$25 million is used to provide training for new employers that may move to Arizona; the \$20 million Highway Expansion Loan Program is used for critical infrastructure; and the \$15 million State Aviation Fund is used for regular maintenance to areas such as runways and taxiways, all necessary to compete in a global economy. These funds total \$135 million, which could have been used to improve Arizona's competitiveness for new jobs and economic development.

Finally, I do not believe the taxpayers of Pima County understand that nearly one third – close to \$100 million – of the County primary property tax is now being levied for the State. In reality, the County is required to raise taxes at the request of the State. Based on the proposed State budget, we will again be required to increase local property taxes to fund the State budget. We need to do a much better job educating our taxpayers about who is increasing their taxes when we construct next year's annual County budget and send out the tax bills for all taxing jurisdictions.

CHH/mjk

- c: Hank Atha, Deputy County Administrator for Community and Economic Development
- John Bernal, Deputy County Administrator for Public Works
- Jan Leshar, Deputy County Administrator for Medical and Health Services
- Tom Burke, Director, Finance and Risk Management
- Robert Johnson, Budget Manager, Finance and Risk Management
- Michael Racy, Racy Associates, Inc.