MEMORANDUM

Date: March 8, 2015

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

From: C.H. Huckelberry
County Administrator

Re: Legislative Updates and Direct Budget Impacts to the County

Various pieces of legislation enacting cost shifts to Pima County have been introduced in the State Legislature. These shifts are contained in a series of budget bills. Of concern are the continuing cost shifts from the State related to the Arizona Department of Juvenile Corrections, paying a portion of the cost to operate the Arizona Department of Revenue, and the one percent constitutional property tax cap liability shift. These three pieces of legislation add nearly $10 million to Pima County's tax liability and require payments previously made by the State to be made from the County's budget. This is a continuation of a pattern of State cost shifts to the County (see Attachment 1).

Attachment 2 to this memorandum is the paragraph in House Bill 2683 that attempts to implement the one percent constitutional property tax cap liability shift. As you can see, the language is quite confusing and, in essence, appears to require the County to levy a tax on behalf of school districts so the State can keep what it had previously been paying for this constitutional tax liability. We are reviewing with the County Attorney the complicated legal issues associated with this proposed legislation.

Of equal concern is that the promised reduction in State diversions of Highway User Revenue Funds (HURF) to maintain our highways will not occur. This reduction was to be the second year of a move away from using HURF monies to pay for State budget costs. At this time, it appears this legislation is dead; hence, the County will not receive the nearly $2 million in additional monies we had planned on to maintain our streets and highways in Fiscal Year 2015/16.

Another cost shift by the State has also recently surfaced. The State policy previously paid for all Presidential Preference election costs. Since such is a statewide ballot question, legislation was in process to have the State pay this election cost. Now, it appears the State will be limiting its reimbursement to $1.25 per voter, or approximately $200,000; which leaves the County in a deficit position when conducting the election. The estimated cost of the Presidential Preference election will be approximately $1.5 million based on existing law; hence, County taxpayers will be required to pay $1.3 million for the Presidential Preference Election. Our estimated cost is based on a two-party Presidential Preference election.
In summary, based on the present State budget proposals, another nearly $10 million in cost shifts from the State to the County will occur; bringing the total share of our primary property tax levied to benefit the State to $93 million, or a tax rate of $1.28 per $100 of assessed value, or 30 percent of our primary property tax. Also, the planned additional $2 million for pavement repair from the previously promised reduction in State HURF diversions will not be received.

CHH/mjk

Attachments

c:  Presiding Judge, Superior Court
    Elected Officials
    Appointing Authorities
THE COUNTY LEVIES PROPERTY TAXES FOR THE STATE
STATE BUDGET IMPACTS ON COUNTY PROPERTY TAXES

The County’s primary property tax is $4.2779 per $100 of assessed value and supports all County operations, including $1.1411 per $100 of assessed value for State-mandated transfer payments to support State programs.

Total Present County Property Tax Support to the State

Table 1: Current (and Recommended Continuing) State-mandated Cost Transfers.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount Required from Pima County</th>
<th>Portion of Pima County Primary Property Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona Health Care Containment System</td>
<td>$17,488,764</td>
<td>$0.2409</td>
</tr>
<tr>
<td>Arizona Long-term Care System</td>
<td>$39,730,100</td>
<td>0.5473</td>
</tr>
<tr>
<td>State Behavioral Health System</td>
<td>$3,064,936</td>
<td>0.0422</td>
</tr>
<tr>
<td>Restoration to Competency</td>
<td>$1,998,099</td>
<td>0.0275</td>
</tr>
<tr>
<td>Sexually Violent Persons</td>
<td>$1,217,566</td>
<td>0.0168</td>
</tr>
<tr>
<td>Superior and Juvenile Court Salaries and Benefits*</td>
<td>$19,336,822</td>
<td>0.2664</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$82,836,287</strong></td>
<td><strong>$1.1411</strong></td>
</tr>
</tbody>
</table>

*See Table 3 on Page 2 (reverse) for additional information.

Proposed FY 2015/16 State Budget New Cost Shifts

Table 2: FY 2015/16 Proposed State Budget – New Cost Shifts.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount Required from Pima County</th>
<th>Portion of Pima County Primary Property Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Juvenile Corrections</td>
<td>$1,163,899</td>
<td>$0.0160</td>
</tr>
<tr>
<td>Homeowner Tax Rebates</td>
<td>$7,850,548</td>
<td>0.1081</td>
</tr>
<tr>
<td>Homeowner Rebate Cap*</td>
<td>Pending</td>
<td>Pending</td>
</tr>
<tr>
<td>Restoration of ALTCS Dental</td>
<td>$141,000</td>
<td>0.0019</td>
</tr>
<tr>
<td>AZDOR Operating Cost</td>
<td>$644,070</td>
<td>0.0088</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$9,799,517</strong></td>
<td><strong>$0.1348</strong></td>
</tr>
</tbody>
</table>

If the proposed cost shifts in Table 2 above are enacted, approximately $92.6 million – nearly 29 percent of the County’s total primary property tax levy – will go to State-mandated transfer payments to support State programs.

*The State pays a portion of residential homeowners’ school district primary property taxes via a homeowner’s rebate included on individual property tax statements, to a maximum of $600 per parcel. The rate floats and is currently at 43.6 percent of the Qualifying Tax Rate used to calculate the reimbursement. The Governor proposes to cap this at 44 percent in the future. This change will impact Pima County and its taxpayers. The State has not quantified the impacts to counties at this time.

Proposed One-time Transfers and Other Budget Reductions that would Adversely Affect Economic Development

- $4.5 million reduction from the Department of Tourism’s marketing budget (100 percent of General Fund marketing support);
- $75 million from the Arizona Competes Fund, which is used by the Arizona Commerce Authority to incentivize new employers to move to Arizona;
- $25 million from the Workforce Recruitment and Job Training Fund, which is used to provide training for new employers who may move to Arizona;
- $20 million from the Highway Expansion Loan Program, which is used for critical infrastructure; and
- $15 million from the State Aviation Fund, which is used for regular maintenance to areas such as runways and taxiways.
Table 3: County Costs for Superior and Juvenile Court Salaries and Benefits.

<table>
<thead>
<tr>
<th>Description</th>
<th>FY 2014/15 General Fund Salaries and Benefits Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Superior Court Judges and Commissioners</td>
<td>$6,495,647</td>
</tr>
<tr>
<td>Superior Court Probation and Surveillance Officers</td>
<td>4,553,493</td>
</tr>
<tr>
<td>Juvenile Court Probation and Surveillance Officers</td>
<td>6,262,610</td>
</tr>
<tr>
<td>Justices of the Peace (Net of Reimbursements)</td>
<td>1,178,463</td>
</tr>
<tr>
<td>Constables</td>
<td>846,609</td>
</tr>
<tr>
<td><strong>Total General Fund Cost</strong></td>
<td><strong>$19,336,822</strong></td>
</tr>
</tbody>
</table>
AN ACT


(TEXT OF BILL BEGINS ON NEXT PAGE)
I. If a parcel of property is owned by a cooperative apartment corporation or is owned by the tenants of a cooperative apartment corporation as tenants in common, the reduction in the property taxes prescribed in subsection D of this section shall not exceed the amounts listed in subsection D of this section for each owner-occupied housing unit on the property. The assessed value used for determining the reduction in taxes for the property is equal to the total assessed value of the property times the ratio of the number of owner-occupied housing units to the total number of housing units on the property. For the purposes of this subsection, "cooperative apartment corporation" means a corporation:

1. Having only one class of outstanding stock.
2. All of the stockholders of which are entitled, solely by reason of their ownership of stock in the corporation, to occupy for dwelling purposes apartments in a building owned or leased by such corporation and who are not entitled, either conditionally or unconditionally, except upon a complete or partial liquidation of the corporation, to receive any distribution not out of earnings and profits of the corporation.
3. Eighty percent or more of the gross income of which is derived from tenant-stockholders. For the purposes of this paragraph, "gross income" means gross income as defined by the United States internal revenue code, as defined in section 43-105.

J. The total amount of state monies that may be spent in any fiscal year for state aid for education in this section shall not exceed the amount appropriated or authorized by section 35-173 for that purpose. This section shall not be construed to impose a duty on an officer, agent or employee of this state to discharge a responsibility or to create any right in a person or group if the discharge or right would require an expenditure of state monies in excess of the expenditure authorized by legislative appropriation for that specific purpose.

K. NOTWITHSTANDING SUBSECTION E OF THIS SECTION, BEGINNING IN FISCAL YEAR 2015-2016, THE MAXIMUM AMOUNT OF ADDITIONAL STATE AID FOR EDUCATION THAT WILL BE FUNDED BY THIS STATE PURSUANT TO SUBSECTION E OF THIS SECTION SHALL BE ONE MILLION DOLLARS PER COUNTY. FOR ANY COUNTY WITH A SCHOOL DISTRICT OR DISTRICTS THAT COLLECTIVELY WOULD OTHERWISE RECEIVE MORE THAN ONE MILLION IN ADDITIONAL STATE AID FOR EDUCATION PURSUANT TO SUBSECTION E OF THIS SECTION, THE PROPERTY TAX OVERSIGHT COMMISSION ESTABLISHED BY SECTION 42-17002 SHALL DETERMINE THE PROPORTION OF THE VIOLATION OF ARTICLE IX, SECTION 18, CONSTITUTION OF ARIZONA, THAT IS ATTRIBUTABLE TO EACH TAXING JURISDICTION WITHIN THE AFFECTED SCHOOL DISTRICT OR DISTRICTS. BASED ON THOSE PROPORTIONS, THE PROPERTY TAX OVERSIGHT COMMISSION SHALL DETERMINE AN AMOUNT THAT EACH TAXING JURISDICTION WITHIN THE AFFECTED SCHOOL DISTRICT OR DISTRICTS SHALL TRANSFER TO THE AFFECTED SCHOOL DISTRICT OR DISTRICTS DURING THE FISCAL YEAR IN ORDER TO COMPENSATE THE AFFECTED SCHOOL DISTRICT OR DISTRICTS FOR ITS PRO RATA SHARE OF THE REDUCTION IN ADDITIONAL STATE AID FOR EDUCATION FUNDING REQUIRED BY THIS SUBSECTION. IN DETERMINING THE PROPORTION
OF THE VIOLATION OF ARTICLE IX, SECTION 18, CONSTITUTION OF ARIZONA, THAT IS
ATTRIBUTABLE TO EACH TAXING JURISDICTION WITHIN THE AFFECTED SCHOOL DISTRICT
OR DISTRICTS, THE PROPERTY TAX OVERSIGHT COMMISSION SHALL ASSUME A PROPORTION
OF ZERO FOR ANY TAXING JURISDICTION THAT HAS A TAX RATE FOR THE FISCAL YEAR
THAT IS EQUAL TO OR LESS THAN THE TAX RATE OF PEER JURISDICTIONS, AS
DETERMINED BY THE PROPERTY TAX OVERSIGHT COMMISSION.

K. L. For the purposes of this section:

1. "Owner" includes any purchaser under a contract of sale or under a
deed of trust.

2. "Residential property" includes owner-occupied real property and
improvements to the property and owner-occupied mobile homes that are used as
the owner's primary residence and classified as class three property pursuant
to section 42-12003.

Sec. 13. Section 15-2002, Arizona Revised Statutes, is amended to
read:

15-2002. Powers and duties; executive director; staffing;
report
A. The school facilities board shall:
1. Make assessments of school facilities and equipment deficiencies
and approve the distribution of grants as appropriate.
2. Maintain a database of school facilities to administer the building
renewal grant fund and new school facilities formula. The facilities listed
in the database must include all buildings that are owned by school
districts. The school facilities board shall ensure that the database is
updated on at least an annual basis. Each school district shall report to
the school facilities board no later than September 1 of each year
information as required by the school facilities board for the administration
of the building renewal grant fund and computation of new school facilities
formula distributions, including the nature and cost of major repairs,
renovations or physical improvements to or replacement of building systems or
equipment that were made in the previous year and that were paid for either
with local monies or monies provided by the school facilities board from the
building renewal grant fund. Each school district shall report any school or
school buildings that have been closed, that have been leased to another
entity or that operate as a charter school. The school facilities board may
review or audit the information, or both, to confirm the information
submitted by a school district. Notwithstanding any other provision of this
chapter, if a school district converts space that is listed in the database
maintained pursuant to this paragraph to space that will be used for
administrative purposes, the school district is responsible for any costs
associated with the conversion, maintenance and replacement of that space.
If a building is significantly upgraded or remodeled, the school facilities
BOARD shall adjust the age of that school facility in the database as
follows: