



MEMORANDUM

Date: March 1, 2013

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

From: C.H. Huckelberry
County Administrator 

Re: **Fundamental Components of the County Budget between Now and the Release of the Recommended Budget to the Board of Supervisors for Fiscal Year 2013/14**

I will be issuing a series of memoranda discussing major building blocks and issues for the Fiscal Year (FY) 2013/14 Budget over the next 45 days.

For the most part, we have weathered a five-year recession with few adverse impacts in service delivery and no layoffs or furloughs of County employees. We have done this by anticipating and forecasting our future revenue sources and program requirements in a systematic and thoughtful manner in conjunction with policy guidance from the Board of Supervisors.

Over the last several years, we have absorbed revenue reductions from the property tax due to a shrinking tax base. The table below indicates the assessed value of Pima County that reacted to the earlier adverse economic conditions beginning in 2007.

FY	Primary Net Assessed Valuation (PNAV)	Change in PNAV from Prior FY	Percent Change in PNAV from Prior FY
2009/10	\$ 8,985,711,830		
2010/11	\$ 8,939,647,260	(\$ 46,064,570)	-0.51%
2011/12	\$ 8,310,120,212	(\$ 629,527,048)	-7.04%
2012/13	\$ 8,073,937,734	(\$ 236,182,478)	-2.84%
2013/14	\$ 7,559,129,097	(\$ 514,808,637)	-6.38%

As I have stated in previous forecasts, we expect shrinking of the tax base to continue through FY 2014/15. The shrinkage of the tax base for FY 2013/14 was slightly more than forecasted. From last year to this year, for budget purposes, the tax base will shrink 6.38 percent. Hence, the cumulative loss in value of the tax base since it began to decline is now \$1,426,582,733, or 15.88 percent. During this period, our other major revenue source, state-shared revenue, also declined.

The County absorbed these revenue losses by correspondingly reducing the cost of County government in most County departments. Across-the-board budget reductions of

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approximately 11.5 percent for most General Fund departments (a 2.5 percent reduction for the Sheriff) have yielded \$18.3 million in savings for each of FYs 2008/09 and 2009/10, \$25 million in FY 2010/11 and \$27.7 million in FY 2011/12. While no additional across-the-board reductions were made for FY 2012/13, the County will continue to realize these savings.

Continued erosion of our property tax revenue, while maintaining services without additional significant program reductions, is not sustainable. In FY 2013/14, I will recommend the property tax rate be increased to offset some of the cumulative value losses in the tax base. This is primarily for the purpose of retaining full-range, vital services by the County, as well as retaining a highly qualified and competent employee base.

It is possible to continue to ask County departments and agencies to cut expenditures; but in my view, this would be imprudent and would lead to long-term, adverse fiscal consequences that are unacceptable.

Finally, it is important for the Board to remember that due to the passage of Proposition 117 in Arizona last year, our rebound and growth in the property tax base in response to market conditions will be metered by the five percent growth limitation imposed by Proposition 117. Therefore, it will take much longer for the tax base to recover its taxable value. It is forecasted that the market value of the property tax base in future years may be considerably higher than the regulated value due to Proposition 117 growth limitations on the actual tax base.

In the coming weeks, I will provide the Board with additional information regarding major budget issues to prepare the Board for the difficult policy tradeoffs that will be necessary in adopting a balanced budget for FY 2013/14.

CHH/dph

c: Presiding Judge, Superior Court
Elected Officials
Appointing Authorities
Martin Willett, Chief Deputy County Administrator
Tom Burke, Director, Finance and Risk Management
Robert Johnson, Budget Manager, Finance and Risk Management