



Board of Supervisors Memorandum

April 7, 2015

Budget Strategy, Policy and Development

I. Budget Preparation and Planning

As the Board is aware, the County publishes the Budget Preparation Schedule that specifies to all County departments and agencies the schedule upon which budget documents for the upcoming budget year should be submitted. This allows the County to adequately plan for budget development and adoption by the Board for the fiscal year following adoption. This process is open and transparent. The submitted budgets of all County departments and agencies have been placed online for public review.

In addition, as a matter of course, I routinely direct informational memoranda to the Board regarding key budget issues the County faces during the year. For this fiscal year, I have sent the Board of Supervisors 27 memoranda regarding the budget and various fiscal related issues the County faces. All of these communications are available for the public to view on the County Budget webpage:

<http://webcms.pima.gov/cms/One.aspx?portalId=169&pageId=36498>

as well as under the County Administrator section of the webpage entitled FY 2015/16 Budget:

http://webcms.pima.gov/government/county_administrator/

These memoranda discuss the challenges and opportunities we face in constructing the revenue and expenditure budget for the County for the coming fiscal year.

The County budget is complex, covering a variety of revenue sources, as well as expenditure areas and a total of 48 County departments and agencies funded by the County budget. Including grant funding, there are over 250 different revenue sources available to the County for funding the various County departments and agencies. These funds range from unrestricted, such as the General Fund, to highly restricted special revenue funds. Unfortunately, the only revenue source over which the County has direct control is the County-levied property tax; the primary property tax or the secondary property tax. All other revenue sources are either predetermined in amount or highly restricted.

The budget process is year round, as well as complex, and requires constant communication with the Board and the departments and agencies of the County. In its most recent independent credit rating Standard and Poor's (S&P) analysis in rating the County concluded, with regard to the County Budget, preparation, management and oversight that *"the County has strong management conditions, supported by financial policies and practices which S&P considers to be strong, with monthly reviews of budget-to-actual performance by the Budget Division, a comprehensive capital improvement plan, and adequate debt service reserves."*

II. Long-range Strategic Budget Plan

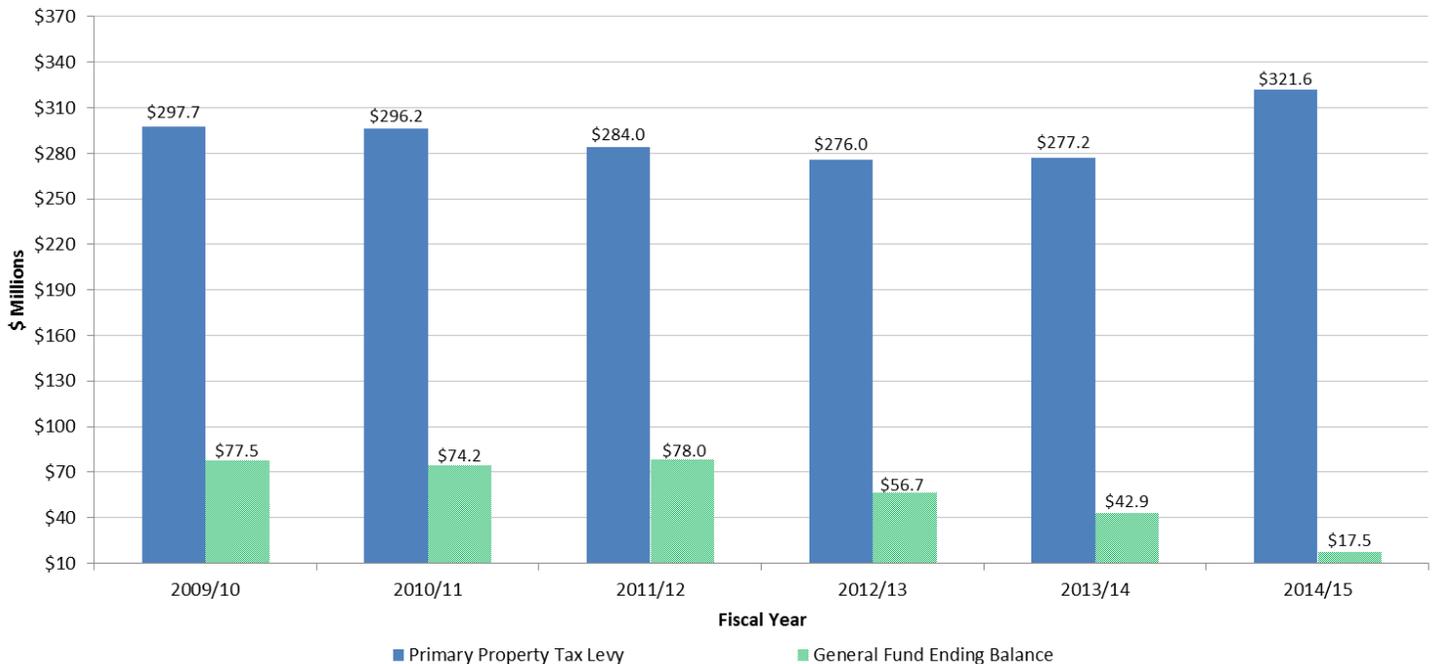
The budget is adopted on an annual basis by the Board; however, the budget structure contains long-term budget strategies, actions and implications. The Board directs these policy areas depending on the circumstances in which the budget is adopted. These circumstances are primarily externally driven by the local, state and national economies.

Because our main revenue source, the property tax, reacts very slowly to changing economic conditions, it is possible to forecast the future and take actions necessary to minimize adverse economic conditions on the overall regional economy in the short-term. This strategy was utilized by the Board during the recent Great Recession. While the Recession immediately affected sales tax revenues in 2008, it was not until 2010 that the property tax base shrank dramatically. During this period, deliberate budget strategies were implemented to increase the County fund balance and provide a sufficient revenue base to weather the recession without increasing the tax burden on the local economy.

Between Fiscal Year (FY) 2009/10 and FY 2013/14, property taxes levied by the Board decreased 7 percent, or an aggregate reduction of \$20.5 million, over the four-year period. In 2010, the primary property tax revenue was \$298 million; in 2014 the receipt was \$267 million; a significant but anticipated decline. At the same time, the General Fund balance declined from \$77.5 million to \$42.9 million. In essence, the long-term budget strategy was to contract the fund balance without raising property taxes to assist the local economy in recovering from the Great Recession. In FY 2014/15, the General Fund balance had been reduced to the minimum desirable, and a property tax rate increase was required by the Board to bring the budget into structural balance with expenditures.

Figure 1 below shows the General Fund primary property taxes levied from FY 2009/10 to FY 2014/15 and the corresponding General Fund balance for the same year. This deliberate budget strategy has avoided significant fluctuations in County services and provided consistent funding for County departments and agencies.

Figure 1: General Fund Property Tax Levy and Fund Balance



The County’s primary policy strategy during the Great Recession was to allow the local economy to recover as quickly as possible without the imposition of increased taxes. While this recovery has begun, it is not yet sufficiently robust to continue property tax rate increases into the future for possibly three years, unless external requirements beyond the control of the County require such.

Our long-range budget strategy going forward is to grow the tax base through economic development expansion activities; hence, our keen interest in supporting expenditures primarily designed to grow the tax base and to advance other regulatory policies that do the same.

III. Property Tax Sources and Strategies

The primary source of revenue for Pima County is the property tax. In aggregate, primary, as well as secondary property taxes for the Library District, Regional Flood Control District (RFCD) and Debt Service revenues total \$431,781,438, representing 41 percent of total County revenues to operate County departments and agencies of \$1,034,812,913. Attachment 1 provides the 10-year history of rates and revenue for these various sources

and includes the assessed values, as well as tax rates and the levies produced from each property tax source.

The primary revenue source for the County General Fund, which totaled \$521,973,093 of budgeted revenue in FY 2014/15, was \$325,729,243 in primary property tax collections, penalties and interest. The Library District and RFCD are property tax levies for very specific purposes and are restricted to only those purposes. The Debt Service secondary property taxes are specifically restricted to the payment and retirement of voter-authorized General Obligation bonds. Again, the 10-year range in the various property tax rates and levies are shown in Attachment 1. The primary drivers of each of these property tax rates and levies are discussed below.

A. Primary Property Tax

The primary property tax pays for all County General Fund expenditures. General Fund expenditures primarily support justice and law enforcement agencies and departments. In FY 2014/15, the gross expenditures of these agencies, including the Sheriff's Department, County Attorney, Indigent Defense and courts equaled \$269,782,998; or essentially all (84 percent) of the primary property tax levy of \$321,633,141. Very little of the primary property tax levy or General Fund is spent on non-mandated services. In fact, the only major non-mandated expenditure is in the area of Natural Resources, Parks and Recreation. Obviously, there are other County departments and agencies funded by the General Fund that are not mandated but they are intricately woven into County operations and have significant roles to play in providing essential services to County residents.

B. Library District Tax

The Library District property tax, as discussed with the Board in adopting last year's budget is currently transitioning from a structurally unbalanced budget, where tax revenues are less than annual expenditures, to one that is structurally balanced. Last year, the secondary tax rate was increased \$0.0600 to begin to achieve this structural balance. I will again be recommending a \$0.0600 increase in the Library District tax rate in order to achieve structural balance in the FY 2015/16 budget.

C. Regional Flood Control District

The Regional Flood Control District (RFCD) property tax rate has varied the widest over time. It has ranged from a peak of \$0.7630 in FY 1987/88 to as low as \$0.2635 in FY 2009/10 through FY 2013/14. The RFCD tax levy mirrors significant or major flood events in the County and has been used as an investment tool to minimize or eliminate future flood risk and has been quite effective in doing so. Presidentially-declared flood disasters occurred in 1977, 1978, 1979, 1983, 1993 and 2006. The most significant

flood disaster that occurred in Pima County was in October 1983, with 154 residential structures and 22 commercial buildings lost. Thirteen lives were lost, and there were 221 injuries. There was \$105.8 million in damages to public infrastructure, including bridges, roads, and sewer and water utilities. Based on peak flood flows, a larger magnitude flood estimated to be a 250-year flood event occurred in 2006 on the Rillito River. Because of the substantial and significant investment of the RFCD between 1983 and 2005, this large-magnitude flood caused essentially no damage, and flood control improvements protected an estimated \$800 million to over \$1 billion in public facilities and private property.

This is an example of beneficial public investments that reduce long-term risk and financial loss. The RFCD continues to make efforts at reducing long-term flood hazard and threats. It is likely there will be no significant increase in the RFCD tax rate unless an unforeseen flood disaster occurs. However, there is a need to increase the investments in preventive measures, such as advanced flood warning systems, and to continue our investments in the federal Clean Water Act Section 404 permit program requirements, river parks and the river park system, including maintenance of this system. It is little known to the public that the river park system, which is enjoyed by thousands of residents on any given weekend, is a regulatory requirement of our flood mitigation program. Continued maintenance and investment is necessary; not only from the perspective of the general public's enjoyment of this heavily used public park system, but to ensure continued compliance with regulatory federal actions.

D. Debt Service Property Tax

The County's Debt Service property tax is levied only upon voter authorization of General Obligation bonds. This tax levy is exclusively for the purpose of retiring voter authorized General Obligation debt of the County. The County, since 1974, has asked the voters on 12 separate occasions (54 ballot questions approved and 4 disapproved) and the voters have authorized over \$2.064 billion in General Obligation bonds for capital improvements throughout the County. These bonds have been issued and projects completed.

The secondary debt service property tax rate over the last 25 years has varied from as low as \$0.6050 in FY 2008/09 to as high as \$1.1091 in FY 1991/92 and is primarily controlled by the Board's voluntary pledge to cap the secondary property tax rate for this purpose. The largest bond authorization by the voters occurred in 2004, which authorized \$732.25 million (\$582.25 million in General Obligation bonds and \$150 million in Sewer Revenue bonds) in debt when the County's property tax base was \$5.62 billion. Today, our property tax base is \$7.62 billion; and it is possible the Board will ask the voters to authorize between \$600 and \$800 million in new bonds to be paid back over the same short retirement period of less than 15 years, while remaining within the voluntary secondary property tax rate cap of \$0.8150.

E. Property Tax Levies Summary

In summary, the planning objectives in the short term for the various property tax levies and rates are as follows:

1. Hold the primary property tax rate as near to the current level as possible for the next three years so long as there are no major external actions that result in an increase.
2. Bring the Library District budget to structural balance by increasing the Library District tax rate so that annualized expenses equal annualized property tax revenues.
3. Continue to keep the RFCD tax rate approximately the same, with a modest increase to make investments in the County's river park system.
4. Hold the secondary property tax for Debt Service at or below voter-authorized voluntary caps necessary to retire voter-authorized General Obligation bond debt.

IV. Grant Funding Support is Declining

The County faces increased pressure from a variety of sources to meet service demands, primarily in the justice and law enforcement area. Expenditures in this area have increased by over 11.6 percent; from an aggregate justice and law enforcement expenditure (all funds) of \$294,923,660 five years ago to \$329,211,573 today. At the same time, federal and traditional annually appropriated revenue sources are diminishing, particularly in this service area. Federal law enforcement grants have been cut dramatically in the past few years. For example, since 2010, the County Attorney has experienced a loss of seven grants totaling \$4,504,829. Our Office of Emergency Management has also experienced a significant decline in grants revenue of over \$648,000 since 2011.

In addition, state programs have been eliminated through fund sweeps and other state budget balancing activities. This funding is not likely to be reinstated anytime within the next five years.

The simple message is that, there is little or no assistance in meeting our budget obligations coming from either the federal government or the state government at any time in the future. We are simply on our own.

V. State Cost Shifts

Over the years, the State has adopted new programs, paid for them entirely for one or two years, and then begun to shift the program costs to counties. The best examples are the Restoration to Competency and the Sexually Violent Persons programs. Restoration to Competency takes a criminal defendant who would otherwise be declared incompetent to stand trial and improves their competency to the point where they are able to stand trial. Sexually Violent Persons are individuals confined to the State prison who, upon completion of their sentence, are deemed to be a continuing threat to public safety and are confined at the Arizona State Hospital. Both of these programs were initially paid entirely by the State; now, their costs have been entirely or partially shifted to the counties. The same is true for the State Indigent Health program for FY 2014/15 (Arizona Health Care Cost Containment System, Arizona Long Term Care System and Behavioral Health System). These total cost transfers to Pima County from the State, including the County's share of salaries and benefits for the courts totaled \$82.8 million, or 26 percent of our primary property tax rate in FY 2014/15.

In balancing the State Budget this year, the Governor and Legislature have accelerated cost transfers to the counties and increased the cost transfer to Pima County by more than any other county in the State. The proposed cost transfers to the County that are presently enacted into law equal in excess of \$23 million; and when added to the FY 2014/15 transfers yield an estimated State budget cost transfer of \$106 million for FY 2015/16, or 33 percent of the existing primary property tax rate of \$4.2779.

In the past, we have generally accepted these State budget cost transfers. However, in order to provide complete transparency in budgeting, it is incumbent upon the County to ensure that local property taxpayers have a clear understanding of who is benefiting from their property taxes, by how much, and how those increases are occurring year-to-year. I intend to do this for the County Budget this year, as well as in the property tax statements that will be sent to Pima County taxpayers. It is only fair and reasonable that Pima County taxpayers clearly understand how much of their primary property tax is required to be sent to the State to support State only programs. Attachment 2 provides the existing and proposed state cost transfers for last year, as well as this year.

This property tax shift to the County has been ongoing, over the last 10 years, the State has dramatically increased State cost shifts to counties and, in particular, Pima County. Table 1 below shows the amount of the primary property tax rate dedicated to the payment of the State programs 10, 7 and 3 years ago, as well as the current fiscal year and the proposed cost transfers embedded in the now State Adopted Budget. As you can see, the percentage of the County primary property tax consumed in State cost transfers has increased from \$72 million in FY 2004/05 to an estimated \$106 million in FY 2015/16, an increase of 47.5 percent.

The Honorable Chair and Members, Pima County Board of Supervisors
 Re: **Budget Strategy, Policy and Development**
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**Table 1: FY 2004/05 Actuals through FY 2015/16 Estimated
 State Required Payments and Transfers from the Pima County General Fund**

	FY 2015/16 In Progress	FY 2014/15 Adopted	FY 2011/12 Actual	FY 2007/08 Actual	FY 2004/05 Actual
AHCCCS	\$17,488,764	\$17,488,764	\$16,154,690	\$17,199,100	\$17,023,321
ALTCS	\$39,730,100	\$39,730,100	\$39,360,450	\$41,054,700	\$36,806,800
Behavioral Health System-State Contribution	\$3,064,936	\$3,064,936	\$3,064,936	\$3,064,936	\$3,064,936
Restoration to Competency-ASH payments	\$0	\$0	\$0	\$1,578,233	\$2,000,000
Restoration to Competency-Local Costs*	\$1,998,099	\$1,998,099			
Sexually Violent Persons	\$1,217,566	\$1,217,566	\$838,127		
Superior/Juvenile Court Salaries and Benefits (Budgeted)					
Judges/Commissioners	\$6,495,647	\$6,495,647	\$5,461,065	\$5,050,745	\$3,977,407
Superior Court Probation	\$4,553,493	\$4,553,493	\$4,373,450	\$4,648,217	\$3,035,115
Juvenile Court Probation	\$6,262,610	\$6,262,610	\$6,540,681	\$6,511,491	\$5,005,000
Justice Courts - JP Salaries and Benefits (net of reimbursements)	\$1,178,463	\$1,178,463	\$1,089,176	\$771,231	\$480,061
Constables Salaries and Benefits	\$846,609	\$846,609	\$783,508	\$643,949	\$478,706
Other					
State Mandated County Contributions (Detailed in Memorandum Table 5)	\$23,196,064		\$6,775,700		
Total State Payments	\$106,032,351	\$82,836,287	\$84,441,783	\$80,522,602	\$71,871,346
*Pima County has its own Restoration to Competency Program and sends few patients to the Arizona State Hospital.					
Primary Property Tax Rate Impact	\$1.5637				
Increase in State Required Payments and Transfers for FY 2004/05 to FY 2015/16	\$34,161,005	a 47.5 percent increase			
Property Tax Information					
Primary Property Tax Levy		\$321,633,141	\$284,023,289	\$264,866,986	\$220,399,039
Secondary Property Tax Levy		106,345,683	115,243,865	114,528,192	75,142,975
Total Primary and Secondary Levy		427,978,824	399,267,154	379,395,178	295,542,014
Year to Year Change in Primary Levy - Increase/(Decrease)		\$44,477,673	(\$12,174,044)	\$16,397,104	
Year to Year Change in Secondary Levy - Increase/(Decrease)		558,688	(6,261,593)	17,258,058	
Year to Year Change in Primary Levy - Increase/(Decrease)		45,036,361	(18,435,637)	33,655,162	
Primary Property Tax Rate		\$4.2779	\$3.4178	\$3.6020	\$4.0720
Secondary Property Tax Rates		1.4388	1.3895	1.4271	1.3820
Total Primary and Secondary Tax Rate		\$5.7167	\$4.8073	\$5.0291	\$5.4540
Total County Adopted Budget		\$1,188,464,252	\$1,302,402,322	\$1,482,714,496	\$1,097,721,546
Secondary Levy = Regional Flood Control District + Pima County Library District + Debt Service (excludes Fire District Assistance Tax).					

VI. Diversifying the Revenue Sources of the County to Decrease Property Taxes

Pima County has received a great deal of criticism for having the highest primary property tax in the State. Our combined primary and secondary tax rate is \$5.7167 (excludes Fire District Assistance Tax). In large part, our secondary tax rate is set by voters approving bond issues to build capital infrastructure; combining the Library District for better service to the public, and providing a RFCD that has significantly strengthened protective measures and reduced future natural disaster losses. Hence, the primary focus on the County's property tax has been because of our primary property tax, which is \$4.2779 per

\$100 of assessed value, the highest in the State. Table 2 below shows the various primary property tax rates of each county in Arizona, as well as the diversity of other revenue sources of which other counties have availed themselves of in order to reduce their property taxes. It is clear our property tax rate is as high as it is because we have not diversified our revenue sources similar to other counties, this is our problem.

Table 2: Fiscal Year 2014/15 County Property and Sales Tax Rates.

County	Primary Property Tax Rate	County General Fund Excise Tax	Public Health	Jail Excise Tax	County Road Tax	Healthcare District	County Capital Projects
Apache	\$0.4810	0.50%	\$0.1260	\$0.2916 ^{SPT}	—	—	—
Cochise	2.6276	0.50%	—	—	—	—	—
Coconino	0.5646	0.50%	\$0.2500	0.50%	0.30% ¹	—	—
Gila	4.1900	0.50%	—	0.50% ²	—	—	—
Graham	2.1794	0.50%	—	0.50% ³	—	—	—
Greenlee	0.5500	0.50%	\$0.2300	—	—	—	—
La Paz	2.2863	0.50%	—	0.50%	—	—	—
Maricopa	1.3209	—	—	0.20%	—	\$0.1856	—
Mohave	1.8196	0.25%	—	—	—	—	—
Navajo	0.8185	0.50%	\$0.2430	—	—	—	—
Pima	4.2779	—	—	—	—	—	—
Pinal	3.7999	0.50%	0.10% ^{ET}	—	0.50%	—	—
Santa Cruz	3.6471	0.50%	—	0.50%	—	—	—
Yavapai	1.9580	0.50%	—	0.25%	—	—	—
Yuma	2.1608	0.50%	0.112% ^{ET}	0.50%	—	—	—

SPT = Secondary Property Tax, listed as a dollar tax rate

ET = Excise Tax, listed as a percentage

¹Coconino County road tax effective January 1, 2015

²Gila County voters approved a half-cent jail excise tax effective July 1, 2015

³Graham County voters approved a half-cent jail excise tax effective July 1, 2015

Source: County Supervisors Association of Arizona

Table 3 below shows the revenues from excise taxes for other counties in Arizona; note that Pima County is at \$0.

Table 3: FY 2014/15 County Adopted Excise Tax Revenues.

County	General Excise Tax	Jail Excise Tax	Hospital/Health Services Excise Tax	Judgment Excise Tax	County Road Excise Tax	Total Excise Taxes
Apache	\$ 1,200,000					\$ 1,200,000
Cochise	7,000,000					7,000,000
Coconino 1/	12,697,600	\$12,697,600				25,395,200
Gila	2,600,000				\$ 2,282,844	4,882,844
Graham	2,000,000					2,000,000
Greenlee 2/	1,200,000					1,200,000
La Paz 1/	1,412,573	1,412,573		\$2,179,576		5,004,722
Maricopa 3/		141,295,781				141,295,781
Mohave	6,438,200					6,438,200
Navajo	6,816,000					6,816,000
Pima 3/						0
Pinal 4/	14,352,000		\$2,715,486		14,352,000	31,419,486
Santa Cruz 1/	2,600,000	2,600,000				5,200,000
Yavapai	15,150,875	7,574,902				22,725,777
Yuma	11,794,780	11,794,780	2,630,236			26,219,796

Notes

1/ Adopted county jail excise tax revenue not reported. Revenue assumed to equal general excise tax revenue.

2/ Actual general excise tax revenue was \$2,397,110 in FY 2013/14.

3/ Road excise tax revenues not shown as monies go to regional transportation authorities, not county general funds.

4/ Adopted county road excise tax revenue not reported. Revenue assumed to equal general excise tax revenue.

Source: Arizona Tax Research Association, "FY 2015 Budget Review."

I have, on a number of occasions, provided a property tax rate comparison between Pima and Maricopa Counties. This rate comparison is shown in Attachment 3. The difference is startling when Pima County's property tax rate of \$4.2779 is compared to Maricopa County's primary property tax rate of \$1.3209. However, when we normalize these rates, including Maricopa's revenue advantages and other revenue sources, Pima's rate declines to \$1.9621, which is more comparable to Maricopa's rate of \$1.3209. While we can explain the differences in our property tax rates, the differences still remain. Pima County must do a much better job of diversifying our revenue base and reducing our primary property tax rate.

The best place to begin is to examine the excise tax options available to the County. The following excise tax options are available for consideration:

1. A general sales tax that is employed in 13 other counties in Arizona. This statutory authorization requires a unanimous vote of the Board.
2. Request that the voters approve a County jail tax equivalent to a quarter-cent sales tax (\$0.0025). If approved by the voters, this jail tax could reduce the County's primary property tax rate by \$0.4769 or 11.1 percent.
3. A road excise tax, which is available to most all other counties.

Adopting two of these excise taxes would decrease the County's property tax as shown in Table 4 below. One dollar and forty-three cents (\$1.4308) would be subtracted from the County's existing \$4.2779 tax rate per \$100 of assessed value. This would mean the County's property tax rate would be \$2.8471, a reduction of 33 percent; slightly above the present statewide average of \$2.1788 among the Arizona counties.

Table 4: County Excise Tax Revenue Allows Reduction In Primary Property Tax Rate.

Excise Tax	Estimated FY 2014/15 Excise Tax Revenue	Reduction in County Primary Property Tax Rate
Pima County General Excise Tax (0.5% tax rate)	\$68,907,679.90	\$0.9539
Pima County Jail Excise Tax (0.25% tax rate)	34,453,839.95	0.4769
Total	\$103,361,519.85	\$1.4308

Note 1: Estimated excise tax revenues based on actual Regional Transportation Authority revenues during the 12-month period March 2014 through February 2015, adjusted for the maximum allowed tax rate and the type of transactions that would be subject to each excise tax.

Note 2: Primary tax rate reduction assumes current year property tax collection rate of 96.082 percent and the County's \$7,518,481,988 statutory primary net assessed valuation for FY 2014/15.

Pima County cannot continue to rely so heavily on the property tax to balance our budget. We must begin to take the necessary steps to reduce our reliance on property tax and diversify our revenue base, as all other counties in Arizona have done, by adopting one or more excise tax options.

Adopting this strategy will result in Pima County appearing more competitive than other counties in attracting new employment and job opportunities. Most new, primary-based job employers ask few, if any, questions about a region's excise or sales taxes. The only area of focus in their locational decisions relates to property taxes. Hence, it is our primary

property tax rate that would make Pima County appear more competitive, even though we are simply diversifying the tax burden between property taxes and excise or sales taxes.

Another major tax advantage of adopting an excise tax is that approximately 20 percent of the tax is exported to nonresidents. Our residents pay fewer taxes – something they should demand we do.

VII. Overall County Budget in Total

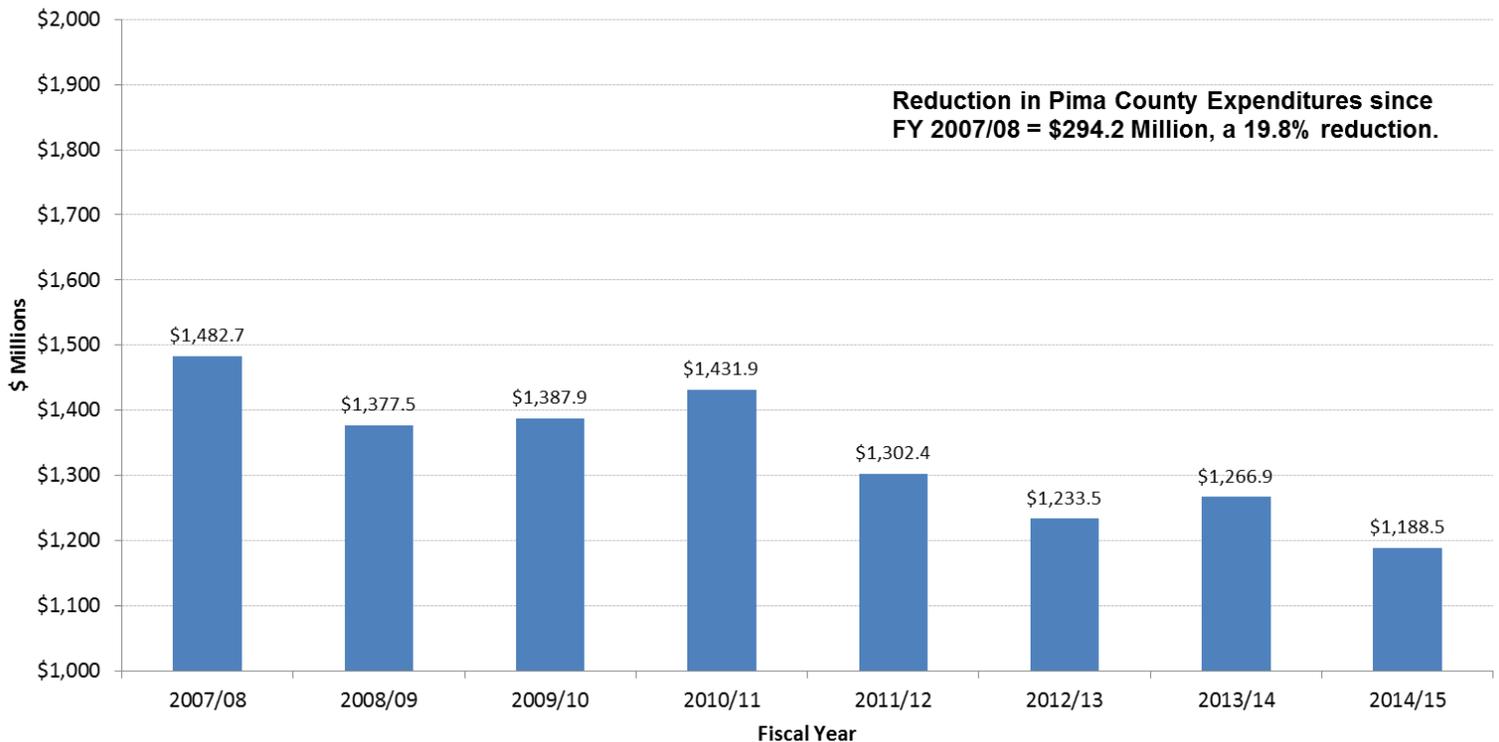
All counties are similar, but each has its own unique characteristics. The unique component of our budget compared to other counties is that the County operates a regional wastewater system that adds substantial capital and operating and maintenance expenses other counties do not incur. In other counties in Arizona, wastewater services are predominately provided by cities and towns; and, unfortunately, in some counties, these public utilities compete with one another to the detriment of their rate payers. They also do not have the advantage of one regional system with regard to economies of scale and overall lower unit cost. Pima County has this advantage; however, the disadvantage is that our wastewater utility expenditures are combined into our overall county expenditure limit. If these expenditures continue to grow with an increasing population served by a regional wastewater system, the County will continue to experience pressure on our expenditure limitation.

In addition, the County budget has sustained a significant capital component financed with voter-authorized bonds; again unique for a county in Arizona. While this is potentially a disadvantage, it is also an advantage; as we can now point to a County budget that will be approximately \$357 million FY 2015/16; lower than it has been in the last 8 years. This result is partially from expenditure reductions because of the Recession and partly because previously authorized bond programs are being completed. These capital investments are no longer occurring at the rates they may have been in the past, which is unfortunate as our bond expenditures are actually investments that make this community more desirable as well as economically competitive.

Figure 2 below shows the past trend in overall County budget expenditures.

Figure 2.

Pima County Budgeted Expenditures - All Funds, FY 2007/08 Through FY 2014/15



VIII. Solving the Road Repair Dilemma

Pima County provides significant transportation services to a population of over 362,067, the largest unincorporated population in the State of Arizona. These transportation demands translate into significant investments required for mobility through highway capacity expansion, as well as for roadway repair and maintenance. The most significant issue Pima County faced 15 years ago was expanding highway capacity to keep up with transportation demands caused by the growing unincorporated population. It is for this reason voters were asked to, and approved a \$350 million investment in highway capacity expansion from the 1997 Highway User Revenue Fund (HURF) bond proposal. This capacity expansion is substantially complete today and has significantly improved the capacity of the arterial highway system and, hence, mobility in the unincorporated area of Pima County. These bonds are now being repaid, as they are revenue bonds paid with our

annual HURF State allocation. Our HURF allocation, however, has been shrinking due to the increase in fuel prices over the past few years, as well as a substantial increase in vehicle fuel efficiency and more importantly state diversions to balance the State budget. The State user fee (gas tax) has not been increased in the last 24 years; and \$1 in transportation tax revenue in 1991 today buys only \$0.25 worth of transportation improvements or maintenance.

We cannot continue to fail to address the inadequacy of transportation revenues on a statewide basis. Failing to do so has made us uncompetitive with surrounding states for economic expansion and development opportunities and threatens the integrity of our transportation system. No one can dispute the need to restore the integrity of this system and to do so as quickly as possible. Unfortunately, the State Legislature failed to reasonably and responsibly address this problem. This is the second consecutive year the County has asked the Legislature to increase the gas tax and the second consecutive year the Legislature has failed to take action. Hence, the County will be forced once again to pursue short-term options.

In addition, the Legislature had promised to reduce their reliance on the diversion of HURF monies to balance their own budget for non-transportation purposes. They again failed to keep their promise to reduce this diversion by another \$30 million this year. The Legislature continues to divert transportation revenues for the sole purpose of balancing the State Budget for unrelated transportation purposes and the voters should be up in arms. They are failing to address the more urgent need of increasing transportation revenues statewide to remain economically competitive with our surrounding states.

It appears the only option now left to Pima County is to ask our voters, again in the short-term, to address the issue of highway repair through General Obligation bonding. While this is not an ideal solution to the problem, it is the only solution left to the County that would offer the voters some measurable relief, absent a more holistic transportation financing solution adopted by the Legislature. We may once again ask the voters of Pima County to assist in solving a problem the Legislature has failed to address or even consider through a General Obligation bond issue.

IX. Mandated versus Non-mandated Programs

When budgets get tight and tax increases are discussed, discussions inevitably digress into a debate about mandated versus non-mandated programs and services. Those programs that are deemed mandated or required by State law are deemed to be the most important and, hence, sacrosanct from budget reductions. The non-mandated services always appear to be the easiest targets to reduce or eliminate. While a particular program may be mandated, such as law enforcement, the level and frequency of law enforcement services is purely discretionary. Most taxpayers receive little benefit from mandated services; they

are paying for as they are not booked into the Sheriff’s Adult Detention Center, prosecuted by the County Attorney or defended by Pima County’s Public Defender. These are services they hope “the other guy” enjoys. Ironically, many of our non-mandated services are the most beneficial to typical taxpayers. For example, our Natural Resources, Parks and Recreation Department is completely non-mandated, but it clearly provides services to most typical taxpayers in Pima County.

Table 5 below provides a breakdown of the General Fund for mandated versus non-mandated functions for the FY 2014/15 Adopted Budget.

Table 5: Pima County General Fund, Mandated versus Non-mandated Functions, FY 2014/15 Adopted Budget.

Department	FY14/15 Adopted	Percent
Mandated Functions		
Sheriff	136,815,541	
Mandated Payments to State ALTCS/AHCCCS	57,218,864	
Superior Court	31,657,254	
Indigent Defense	26,933,143	
Juvenile Court	23,286,101	
County Attorney	22,471,707	
Health Mandates	13,710,923	
Health - Office of Behavioral Health	12,236,198	
Clerk of the Superior Court	10,829,185	
Assessor	8,987,373	
Justice Court	8,283,984	
Elections	4,531,785	
Recorder	4,325,361	
Forensic Science Center	3,603,267	
Treasurer	2,569,606	
Public Fiduciary	2,566,658	
Board of Supervisors	2,025,925	
School Superintendent	1,504,336	
County Administrator	1,451,517	
Clerk of the Board	1,373,759	
Solid Waste Management	1,365,904	
Constables	1,185,591	
Total Mandated Functions	\$378,933,982	73%
The following departments are not necessarily mandated; however, if they did not exist, their functions would have to be duplicated within the Mandated Departments:		

Non-Departmental	36,578,353	
Facilities Management	18,438,213	
Information Technology	17,264,980	
Finance	16,947,198	
Human Resources	3,107,414	
Procurement	2,393,445	
Total Required Support Functions	\$94,729,603	18%
Non-Mandated:		
Natural Resources Parks and Recreation	17,128,986	
Health – Research & Planning	16,200,000	
Community Services Employment and Training	6,187,171	
Community Development and Neighborhood Conservation	4,749,303	
Kino Sports Complex	1,085,938	
Communications Office	911,694	
Office of Emergency Management and Homeland Security	607,197	
Community and Economic Development Administration	558,386	
Office of Sustainability and Conservation	309,661	
Total Non-Mandated Functions	\$47,738,336	9%
Total General Fund Expenditures	\$521,401,921	100%

The debate over mandated and non-mandated services and which to fund is nothing more than an adventure down the *Alice in Wonderland* rabbit hole.

X. Easiest Targets Have the Largest Impacts

Our General Fund support of Banner–University Medical Center–South Campus has always been the biggest target for those wanting to cut the budget or divert these General Funds for other purposes. Such would be a serious mistake and cost County taxpayers substantially more in the long term. The last time Pima County operated the then Kino Community Hospital in 2004, we lost in excess of \$33 million. It was essentially an emergency room within a psychiatric hospital.

Our long-term lease with Banner–University Medical Center indicates our continuing desire to improve medical service delivery at the facility and to provide both medical care in a hospital setting and regional psychiatric services for the region and southern Pima County.

The property, buildings and physical plant are all County-owned and leased to Banner–University. The lease includes a clause stating that should Pima County substantially or entirely reduce funding support, Banner–University may terminate the lease and return the facility to the County.

I will in the near future provide the Board a year-end report regarding the transition of services from University of Arizona Medical Center–South Campus to Banner–University Medical Center–South Campus. This report will illustrate the remarkable renaissance that has occurred at this hospital over the last 10 years; from providing almost no community medical services to one that in the last year provided over 109,000 adjusted patient days, with an average daily census of 122. Clinical visits increased 253 percent, patients in the Intensive Care Unit have increased by 300 percent, and the number of surgical procedures conducted at the hospital has increased over 510 percent. This is a substantial level of hospital-based medical care. The average daily census continues to improve; in 2005 it was 65 and that was primarily for psychiatric services. By 2013, the average daily census had increased to 106 and stands at 122 as stated above. More importantly, these are nearly all medical/surgical patients; the number of psychiatric patients has decreased to below 40 per day.

Reducing our General Fund support for this endeavor would be very shortsighted and a very bad policy decision by the Board.

XI. Important Budget Issues

There are a number of important issues to consider in constructing future year budgets. These issues can vary from bolstering our credit rating to anticipating significant increases in employee healthcare and pension costs. Since the County is a political subdivision of the State, we are only one legislative session away from having more costs transferred to the County or limitations placed on our ability to raise local revenues.

The following is a list of budget issues of which we need to be mindful as we develop the County budget for next fiscal year and future years.

1. Increasing General Fund Budget Reserves – The General Fund Budget Reserve for FY 2014/15 is budgeted at \$17,474,480, the lowest in years. Several years ago, this reserve was as high as \$77.6 million. General Board of Supervisors policy is to have an approximate five-percent General Fund balance. This means in order to achieve that goal this year, the fund balance will have to be increased to \$27,138,865, an increase of \$9,664,385 over this year’s budgeted ending fund balance.

The Standard and Poor’s rating agency indicated it is likely the County’s credit rating could be raised if we were to bolster our ending fund balance. If the Board chooses to

call for a General Obligation Bond Election in November 2015, and if such an election is successful, bolstering our credit rating will be an important consideration in constructing this year's budget. Such will substantially reduce interest payments on issued bonds in the future.

2. Pensions, Healthcare and Other Benefit Funding – Over the past several years, one of the largest cost increases has been the cost of funding pensions and employee healthcare. This is why I have advocated for a tobacco user surcharge; since smoking employees have higher overall healthcare costs than nonsmoking employees. The County's contribution in providing health insurance for employees, paying for various public pension plans and other benefits will cost an additional \$5,211,632 from this year to next year; a sizable increase to absorb within the budget. Table 6 below illustrates how these costs have increased over the years.

Table 6: Pima County Benefit Changes, FY 2013/14 Adopted to FY 2015/16 Required.

Benefit Description	FY 2013/14 Adopted Benefits	FY 2014/15 Adopted Benefits	FY 2015/16 Requested Benefits	Increase/ (Decrease)*
	\$			
Health Insurance Premiums	49,362,370	\$ 50,011,142	\$ 52,455,285	\$2,444,143
Arizona State Retirement	28,401,363	29,646,646	28,732,109	(914,537)
Social Security and Medicare	24,919,375	25,958,906	25,352,696	(606,210)
Public Safety Retirement	11,119,596	12,615,724	15,389,607	2,773,883
Workers Compensation	5,853,621	6,125,833	6,050,663	(75,170)
Corrections Officer Retirement	3,375,598	3,838,020	4,963,105	1,125,085
Corrections Officer Retirement, Judicial Employees	2,237,206	2,286,641	2,856,364	569,723
Elected Official Retirement	1,793,789	1,684,667	1,599,006	(85,661)
Elected Official Retirement - New	-	-	15,662	15,662
Dental Insurance Premiums	765,655	798,885	840,888	42,003
Unemployment Insurance	557,138	480,767	340,134	(140,633)
Life Insurance	421,097	410,023	430,233	20,210
Arizona Public Safety Retirement, County Attorney's Office	93,608	126,560	172,225	45,665
Employer Paid Benefit Fees	9,748	12,614	10,083	(2,531)
Totals	\$128,910,164	\$133,996,428	\$139,208,060	\$5,211,632

*Increase/(Decrease) represents difference between FY 2014/15 Adopted Benefits and FY 2015/16 Requested Benefits.

3. Future State Budget Cost Transfers – We are painfully aware of State Legislative cost transfers, where the costs of State programs are transferred to the County. These cost

transfers are for State programs formerly paid by the State but which are now entirely or partially paid by the County. These cost transfers are reaching a breaking point in our budget, with \$23 million in cost transfers now presently contained in the FY 2015/16 Adopted State Budget. The County will be required to support State programs in the range of \$95.2 to \$106 million, which is 30 to 33 percent of our total primary property tax levy. I was prepared to absorb nearly half these cost transfers; but if they remain at the \$23 million level, I will have no option other than to recommend the Board fund the State cost transfers through a property tax increase. I also believe these cost transfers are contrived and discriminatory. For this reason, I have asked the County Attorney to provide the Board with our legal options to reverse this perverse interpretation of a 1980 State constitutional amendment.

4. Annual Five-percent Cap on Net Assessed Value Increases – This Constitutional amendment, approved by voters two years ago, is now in effect and will substantially limit future overall appreciation of the existing property tax base. Previously, the market dictated increases in net assessed value. Today, with this Constitutional amendment, a limitation has been placed on the growth in net assessed value of the existing property tax base. Hence, the importance of economic development expansion that adds new properties to the tax base, since the rapid rise in tax base value the County experienced from 2003 to 2007 will not occur again.

5. Indigent Defense Costs

The County has faced escalating costs from mandated legal services related to Indigent Defense. It is likely the total cost to the County for Indigent Defense services will be more than \$30 million this fiscal year and will again, exceed budgeted funds even though we increased funding for this function when adopting the budget by \$1.8 million. This cannot continue.

The County's Indigent Defense and Legal Services operations have increased significantly in complexity over recent years. In the past, we had a single Public Defender now there is an additional Legal Defender, contract attorneys, mental health and children's counsel. This growing diversity of defense services increases cost and complicates management and accountability for providing these services.

Table 7 below shows the rapidly rising costs associated with Indigent Defense.

**Table 7: History of FY 2010/11 Adopted to FY 2014/15 Adopted
 Indigent Defense System, General Fund Only**

Expenditures (in current dollars)	FY 2014/15 Adopted	FY 2013/14 Budget	FY 2012/13 Budget	FY 2011/12 Budget	FY 2010/11 Budget
Contract Attorneys	\$8,675,338	\$7,187,938	\$7,187,938	\$8,270,611	\$9,118,237
Indigent Defense				\$15,931,892	\$15,278,140
Legal Defender	\$4,046,060	\$3,948,592	\$3,776,099	-	-
Office of Court Appointed Counsel	\$2,925,820	\$2,595,659	\$2,516,551	\$1,478,023	\$503,605
Public Defender	\$13,086,104	\$13,037,732	\$12,664,202	-	-
Totals	\$28,733,322	\$26,769,921	\$26,144,790	\$25,680,526	\$24,899,982

6. Pima County’s High Unincorporated Population Requires City Services

The unincorporated population of Pima County is 362,067 and is the largest of any county in Arizona for the last several decades. Our unincorporated population reflects resident choice. Based on our population, if we were a city or town, we would be the fourth largest city in Arizona. The fifth largest city is Chandler, which has an annual budget of \$783.5 million.

Some of the services the County is required to provide exclusively to our large unincorporated population are, in fact, traditional city services. In our comparison of Maricopa County and Pima County’s property tax rates, we indicate our property tax rate is higher by at least \$0.4036 because we provide services that are traditionally provided by cities and/or towns.

Having a large unincorporated population is not necessarily an advantage when receiving State-shared revenues. For example, Maricopa County who has an unincorporated population of 291,033 receives Highway User Revenue Funds (HURF) and Vehicle License Tax (VLT) twice the amount of Pima County. Their per capita HURF and VLT is \$358.40 per unincorporated resident, Pima County’s is \$165.20. This makes little sense, since the Maricopa Department of Transportation provides the same services as Pima County’s Department of Transportation. Hence, the actual burden of providing urban services is not necessarily reflected in State revenue sharing.

A number of jurisdictions view annexation as the panacea to both their and our funding issues. However, these jurisdictions have a conflict of interest in their observations; they favor increasing their revenues but not the cost of service obligations. In the case of State shared revenues, for example, an annexed area of the unincorporated area or a newly incorporated city or town might receive \$80 million in new revenue, the remaining jurisdictions and the County would lose \$47.5 million in revenue. Hence, the

The Honorable Chair and Members, Pima County Board of Supervisors
Re: **Budget Strategy, Policy and Development**
April 7, 2015
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net new revenues to operate a new city or an expanded jurisdiction would only be \$32.5 million – hardly enough to remain in the black. This is very poor public policy.

Recommendation

I recommend the Board of Supervisors conduct departmental budget hearings as scheduled on April 7, 14 and 21 and May 5 and 12, 2015; and I will transmit the Fiscal Year 2015/16 Recommended Budget on April 30, 2015.

Respectfully submitted,



C.H. Huckelberry
County Administrator

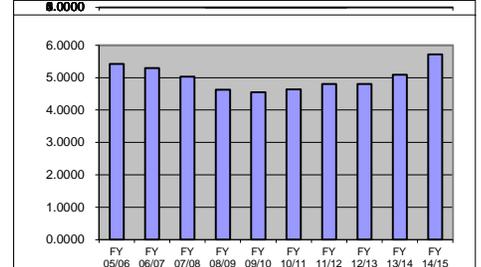
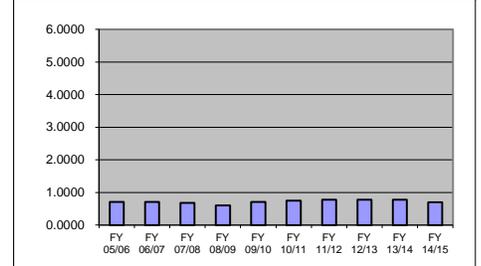
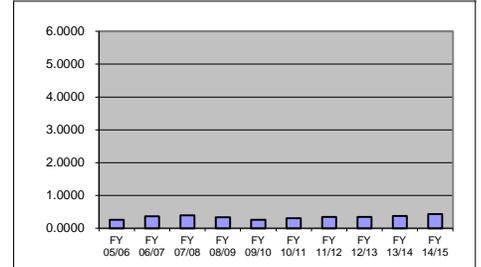
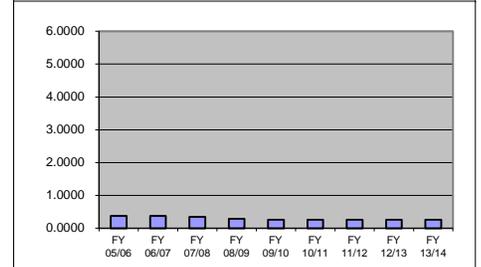
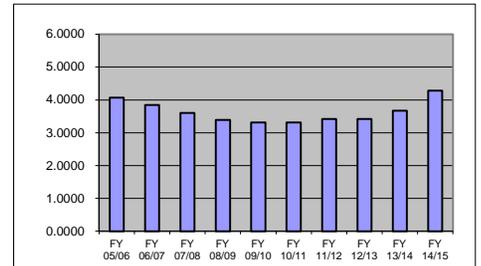
CHH/mjk – April 3, 2015

Attachments

- c: Presiding Judge of the Superior Court
- Elected Officials
 - Hank Atha, Deputy County Administrator for Community and Economic Development
 - John Bernal, Deputy County Administrator for Public Works
 - Tom Burke, Deputy County Administrator for Administration
 - Jan Leshner, Deputy County Administrator for Medical and Health Services
- Appointing Authorities
 - Robert Johnson, Budget Manager, Finance and Risk Management

PIMA COUNTY TAX RATES

CATEGORY		LEVY AMT	VALUATION	TAX RATE
Primary	FY 05/06	238,193,628	5,849,548,818	4.0720
	FY 06/07	248,469,882	6,467,201,516	3.8420
	FY 07/08	264,866,986	7,353,331,088	3.6020
	FY 08/09	279,136,768	8,230,966,534	3.3913
	FY 09/10	297,723,590	8,985,711,830	3.3133
	FY 10/11	296,197,333	8,939,647,260	3.3133
	FY 11/12	284,023,289	8,310,120,212	3.4178
	FY 12/13	275,951,044	8,073,937,734	3.4178
	FY 13/14	277,155,468	7,559,129,097	3.6665
	FY 14/15	321,633,141	7,518,481,988	4.2779
Flood Control	FY 05/06	19,941,580	5,323,432,911	0.3746
	FY 06/07	22,902,866	6,113,952,541	0.3746
	FY 07/08	25,542,408	7,412,190,230	0.3446
	FY 08/09	25,489,218	8,684,571,743	0.2935
	FY 09/10	23,412,476	8,885,189,956	0.2635
	FY 10/11	22,474,309	8,529,149,549	0.2635
	FY 11/12	20,116,215	7,634,237,253	0.2635
	FY 12/13	19,089,598	7,244,629,122	0.2635
	FY 13/14	17,834,883	6,768,456,641	0.2635
	FY 14/15	20,539,235	6,767,457,872	0.3035
Library District	FY 05/06	15,581,196	6,050,950,040	0.2575
	FY 06/07	25,247,086	6,869,955,457	0.3675
	FY 07/08	32,676,073	8,220,395,835	0.3975
	FY 08/09	32,555,365	9,594,861,519	0.3393
	FY 09/10	26,062,573	9,860,980,900	0.2643
	FY 10/11	28,961,940	9,342,561,193	0.3100
	FY 11/12	29,231,054	8,448,281,586	0.3460
	FY 12/13	28,081,413	8,116,015,231	0.3460
	FY 13/14	28,487,320	7,590,546,275	0.3753
	FY 14/15	32,747,156	7,522,893,581	0.4353
Debt Service	FY 05/06	43,264,293	6,050,950,040	0.7150
	FY 06/07	49,120,182	6,869,955,457	0.7150
	FY 07/08	56,309,711	8,220,395,835	0.6850
	FY 08/09	58,048,912	9,594,861,519	0.6050
	FY 09/10	70,012,964	9,860,980,900	0.7100
	FY 10/11	70,069,209	9,342,561,193	0.7500
	FY 11/12	65,896,596	8,448,281,586	0.7800
	FY 12/13	63,735,453	8,171,211,922	0.7800
	FY 13/14	59,464,792	7,623,691,280	0.7800
	FY 14/15	53,059,292	7,579,898,868	0.7000
Total Pima County Property Tax Rate	FY 05/06	316,980,697		5.4191
	FY 06/07	345,740,016		5.2991
	FY 07/08	379,395,178		5.0291
	FY 08/09	395,230,263		4.6291
	FY 09/10	417,211,603		4.5511
	FY 10/11	417,702,791		4.6368
	FY 11/12	399,267,154		4.8073
	FY 12/13	386,857,508		4.8073
	FY 13/14	382,942,463		5.0853
	FY 14/15	427,978,824		5.7167



ATTACHMENT 2

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.

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	3,064,936	0.0422
Restoration to Competency	1,998,099	0.0275
Sexually Violent Persons	1,217,566	0.0168
Superior and Juvenile Court Salaries and Benefits*	19,336,822	0.2664
Totals	\$82,836,287	\$1.1411

**See Table 3 on Page 2 for additional information.*

Proposed FY 2015/16 State Budget New Cost Shifts

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

Description	Amount Required from Pima County	Portion of Pima County Primary Property Tax Rate	Higher Range Portion of Tax Rate
State Juvenile Corrections	\$1,840,289	\$0.0251	
One-percent Homeowner Tax Rebate ²	7.8 to 18.6 million	¹ 0.1063	\$0.2536
Homeowner Rebate Cap ³	To be determined	To be determined	
Restoration of ALTCS Dental	141,000	0.0019	
AZDOR Operating Cost	1,514,775	0.0207	
2016 Presidential Preference Election (Net)	1,100,000	0.0150	
Totals	\$12.4 to \$23.2 million	\$0.1690	\$0.4226

¹Based on the lower end of the estimated range, or \$7.8 million.

²Based on the approved legislation, this liability will likely be more due to "peer" comparisons.

³The 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.

If the proposed cost shifts in Table 2 above are enacted, between **approximately \$95.2 and \$106 million – between 30 and 33 percent of the County’s total primary property tax levy – will go to State-mandated transfer payments to support State programs.**

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.

Description	FY 2014/15 General Fund Salaries and Benefits Costs
Superior Court Judges and Commissioners	\$ 6,495,647
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)	1,178,463
Constables	846,609
Total General Fund Cost	\$19,336,822

**Primary Property Tax Rate for Fiscal Year 2014/15
Maricopa County vs Pima County**

	Rate	Levy
<u>Maricopa County</u>		
Primary Property Tax	\$1.3209	\$442,762,977
Jail Excise Tax (Sales Tax)		\$141,295,781
Maricopa County Special Health Care District (Secondary Property Tax) *		\$65,124,108
	<u>\$1.3209</u>	

*Maricopa County Special Health Care District Levy is the 2015 levy from June 25, 2014.

Pima County

Primary Property Tax	\$4.2779	\$321,633,141
1. Adjust for Adult and Juvenile Detention (a)	<u>\$0.9656</u>	\$72,600,838
	\$3.3123	
2. Adjust for U of A Medical Center South Campus Subsidy (b)	<u>\$0.1995</u>	\$15,000,000
	\$3.1128	
3. Adjust for Per Capita Difference in Net Assessed Value (c)	<u>\$0.4773</u>	\$35,882,154
	\$2.6355	
4. Adjust for high unincorporated population (d)	<u>\$0.4036</u>	\$30,341,058
	\$2.2319	
5. Adjust for lower Per Capita State Shared Sales Tax Revenue	<u>\$0.1442</u>	\$10,844,789
	\$2.0877	
6. Adjust for lower Per Capita Vehicle License Tax Revenue	<u>\$0.1256</u>	\$9,445,630
Pima County's Adjusted Tax Rate	\$1.9621	

Face Value of Difference in Primary Tax Rate

Pima County's Adopted Primary Property Tax Rate =	\$4.2779
Maricopa County's Adopted Primary Property Tax Rate =	\$1.3209
Face Value Comparison (Pima Rate/Maricopa Rate) =	3.24

By using a direct face value comparison of the two tax rates, it appears that Pima County's tax rate is 3.24 times higher than Maricopa County's tax rate.

Adjusted Primary Tax Rate (Difference)

Pima County's Adjusted Adopted Primary Property Tax Rate =	\$1.9621
Maricopa County's Adopted Primary Property Tax Rate =	\$1.3209
Consistent Value Comparison (Pima Adjusted Rate/Maricopa Rate) =	1.49

By using an adjusted rate for Pima County that takes into account the different revenue streams and makes for a more consistent comparison between the two rates, one can conclude that Pima County's rate, while higher, is not all that much greater than Maricopa County's rate. A deeper analysis may push this difference even lower.

Notes

(a) Maricopa County has separate revenue streams for Adult and Juvenile Detention in the form of a Jail Excise Tax. Pima County does not have this capability and must include these costs when calculating the primary property tax rate. This item impacts Pima County's rate by \$0.9656.

(b) Maricopa Hospital costs are under the secondary property tax base as a separate special district. Pima County must include these costs when calculating the primary property tax rate. This item impacts Pima County's rate by \$0.1995.

(c) Maricopa County's per capita primary net assessed value is 12.56% higher than Pima County's. Pima County has to levy an additional \$0.4773 to collect the same amount of tax revenue per capita.

(d) 93% of Maricopa County's population lives in incorporated areas versus 64% of Pima County's population. Pima County's primary tax rate includes the cost of many urban-type services to 36% of the County's total population versus 7% for Maricopa County. Two of the largest unincorporated costs in the General Fund are for Law Enforcement and Parks and Recreation. This analysis takes a 30,341,058 premium for the unincorporated population. This equates to \$0.4036 on the primary property tax rate.

(e) Maricopa County receives more State Shared Sales Tax revenue and Vehicle License Tax revenue on a per capita basis than Pima County does so Pima County charges a higher property tax to make up the difference. The smaller amount of State Shared Sales Tax impacts Pima County's primary tax rate by \$.1442 while the reduced Vehicle License Tax revenue impacts the tax rate by \$.1256.

Maricopa County Special Health Care District

In the November 2014 General Election, Maricopa voters approved a \$935 million bond issue for community healthcare facilities needs, including the replacement of the Maricopa Medical Center, its Level 1 Trauma Center and the Arizona Burn Center.

The estimated total cost of the bond authorization, including principal and interest over the 30-year repayment period, is \$1.634 billion.

The estimated annual property tax rate increase over the life of the repayment period is \$0.1374, a 10.4-percent increase over the current rate.