MEMORANDUM

Date: April 27, 2012

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

From: C.H. Huckelberry
County Administrator

Re: **Transmittal of Recommended Fiscal Year 2012/13 Budget**

Introduction

This memorandum is to transmit the Recommended Fiscal Year 2012/13 Budget for Pima County. These recommendations are made based on information available in mid-April 2012. It is possible that additional relevant information will become available for the Board as it deliberates on the budget prior to final adoption.

Significant events in the Budget adoption and tax levy process are scheduled as follows:

May 15, 2012	Budget Hearing
May 15, 2012	Tentative Budget Adoption (Sets Budget Ceiling)
June 19, 2012	Final Budget Adoption
August 20, 2012	Tax Levy Adoption (Date Set by State Statute)

Following this budget memorandum are:

- Budget schedules showing fund balances, expenditures, revenues, transfers and other financing sources.
- A summary of each department's budget including a description of the budget on a line-item account basis.
- Descriptions of all supplemental funding packages requested by each department.

The County's base operating budget for all funds set forth in this recommendation includes projected continuing and new cost shifts, revenue reductions and revenue sharing.

Index of Budget Memorandum

I. Overview of Recommended Budget

This Recommended Budget is primarily a maintenance of effort budget. It does not expand or add service programs. It does sustain all of Pima County's existing service priorities and programs, especially law enforcement.

Like all governments in Arizona, Pima County has necessarily adjusted to reduced revenues and increased service demands during this economic recession. More than four years ago, at the beginning of the current recession, Pima County began taking actions in response to declining resources and an increasingly uncertain operating environment. Numerous initiatives were developed and implemented to address redundancy and waste. Internal services were centralized to increase efficiency and reduce cost. The workforce was reduced, primarily through natural attrition. Priorities were re-evaluated and items of discretionary spending, such as travel, have been nearly eliminated. Departmental budgets have been incrementally reduced over time pursuant to a managed, thoughtful process.

As a result, General Fund base revenues and expenditures are projected to be approximately equivalent in Fiscal Year 2012/13. A larger than budgeted General Fund ending balance in the current year has, however, allowed recommendations for funding to continue and accelerate initiatives of the Board of Supervisors including road repair, implementation of a regional wireless integrated network for first responders, and continued joint venturing with the University of Arizona to provide expanded, essential health care services at the Medical Center – South Campus.

As an addition to the Board of Supervisors' on-going initiatives to promote local economic development, primary property taxes are recommended to be reduced $8,072,245 from the current year. Reductions in the secondary property tax levies of the Library District, Flood Control District, and Debt Service are also recommended which, together with the primary levy, will reduce County property taxes by $12,128,003.

The recommended combined, total County Budget for Fiscal Year 2012/13 is $1,232,118,864 which is $70,283,458 or 5.4 percent less than the current year and $250,595,632 or 17 percent less than five years ago in Fiscal Year 2007/08.

II. Summary of Key Budget Issues

- The projected General Fund available ending balance for Fiscal Year 2011/12 is $66,015,105, an increase of $31,240,717 over the budgeted reserve of $34,774,388.

- It is recommended that the non-recurring Fiscal Year 2011/12 ending balance be allocated for the following purposes:

  - $10,000,000 to accelerate the repair and preservation of County roads.

- $5,047,077 to fund the cost of the 2012 Primary and General Elections.

- $1,000,000 to fund the start-up costs for the Pima County Wireless Integrated Network.

- $1,556,000 to comply with State law requiring payment to refund of a portion of the contribution made by County employees to the Arizona State Retirement System.

- $15,000,000 to fund the contract payment to the Arizona Board of Regents on behalf of the University of Arizona Medical Center – South Campus.

- $3,300,000 to fund subsidies to Solid Waste Services, Development Services and the Stadium District.

- $30,112,028 as the General Fund Reserve for Fiscal Year 2012/13 which is 6.6 percent of General Fund revenues.

- Assuming continuation of the current primary property tax rate of $3.4178, General Fund base revenues and transfers-in for Fiscal Year 2012/13 are projected to be $458,601,054 which is $6,681,275 or 1.4 percent less than the current year.

- Excluding primary property taxes, General Government revenues from all other sources are projected to increase $1,332,201 or 0.99 percent.

- The value of the net primary property tax base is projected to decrease 2.84 percent which will result in a decrease in the primary levy of $8,072,245 at the current rate.

- General Fund base expenditures and transfers-out for Fiscal Year 2011/12 are projected to be $458,440,941 which is $9,255,844 or 2 percent less than the current year's.

- General Fund base revenues exceed base expenditures by $160,113 which is recommended to be added to the General Fund Reserve.

- Primary Property taxes are recommended to be reduced by $8,072,245 and the rate will remain unchanged from the current year.

- The recommended budget for the Library District is $34,733,767, a $2,443,809 increase from the current year reflecting the conversion of the Oro Valley Library from affiliate to branch status, and the tax rate is recommended to remain unchanged resulting in a tax reduction of $958,661.

- The recommended budget for Debt Service is $112,966,351 and the tax rate to support the General Obligation portion of that budget is recommended to remain unchanged resulting in a tax reduction of $2,161,143.

- The recommended operating budget for the Regional Flood Control District is $11,457,002, a decrease of $586,948 from the current year, and the tax rate is recommended to remain unchanged resulting in a tax reduction of $935,954.

- The recommended combined, total property tax levy of the County will reduce property taxes by $12,128,003 and the combined rates remain unchanged at $4.8073.

- The combined, total Recommended County Budget for Fiscal Year 2012/13 is $1,232,118,864 which is $70,283,458 or 5.4 percent less than the current year and $250,595,632 or 17 percent less than five years ago.

III. General Fund Ending Fund Balance: Fiscal Year 2011/12

A. Positive Ending Fund Balance

The projected General Fund available ending balance for Fiscal Year 2011/12 is $66,015,105. This is a projected increase of $31,240,717 over the budgeted General Fund Reserve of $34,774,388. This ending balance represents 14.3 percent of projected revenues for Fiscal Year 2011/12 compared to the target ending fund balance of 7.5 percent. This is non-recurring, one-time cash available to the General Fund.

This projected net increase of $31,240,717 results from numerous offsetting increases and decreases in actual expenditures, revenues, and operating transfers from the Adopted Budget. The primary factor contributing to the increase is a beginning General Fund balance that was $20.6 million greater than was anticipated at the time the Fiscal Year 2011/12 Budget was adopted. Numerous General Fund revenues from State, Federal, and County sources at the end of last fiscal year were greater than estimated including State Shared Sales Taxes, Arizona Long Term Care System refund, and property tax collections. In addition, several General Fund expenditures, through a variety of management initiatives, were reduced below their budgeted amounts last year including energy costs for facilities, inmate Restoration to Competency, and inmate medical care. Other significant components of the projected increase in the Fiscal Year 2011/12 General Fund ending balance include increased State Shared Sales Tax collections during the current year, a portion of the proceeds from the sale of the Posada del Sol nursing facility that were not committed to purchase land buffering the Raytheon facilities, and a portion of the remainder equity from the dissolution of Pima Health System.

B. Recommended Uses of General Fund Ending Balance

Set forth below are my recommendations for use of the $66,015,105 of non-recurring, one-time resources projected as the available ending balance of the General Fund on June 30, 2012.

1. **Road Repair**

   In April, 2012 the Board of Supervisors directed that a total of $10 million be appropriated from the General Fund next fiscal year to accelerate the repair and preservation of County roads. This first step towards establishment of an enhanced road repair program will rehabilitate 104 miles of County roads by the end of 2012.

   I recommend that this $10 million be allocated from this year's ending fund balance.

2. **Primary and General Elections**

   The increased trending towards use of early voting by mail has substantially increased the cost to the County of conducting elections. The projected cost of the September, 2012 Primary and November, 2012 General Elections, is $5,047,077 consisting of $1,418,577 of additional expenditures by the Recorder and $3,628,500 by the Division of Elections.

   I recommend that this $5,047,077 to fund the cost of the Primary and General Elections be allocated from this year's ending fund balance.

3. **Pima County Wireless Integrated Network**

   For the past nine years the County has, in cooperation with other agencies in southern Arizona, been working to plan, design, and implement a modern countywide regional interoperable public safety communications system. The System (PCWIN) will serve thirty public safety agencies with approximately 7,000 radios.

   Funding for establishment of PCWIN, approximately $105,000,000 comes primarily from a voter approved County bond authorization that has been supplemented by federal grants. The System is scheduled to begin going online in the spring of 2013. There will be some General Fund costs associated with the start-up of this operation.

   In order to facilitate this implementation, I recommend that $1,000,000 of the General Fund ending balance be set aside in a fund designated for PCWIN to be expended as needed and approved by the County Administrator.

4. **Employee Retirement Contribution Refund**

   As part of the adopted State Budget for Fiscal Year 2011/12 the Legislature changed the ratio of liability between employers and employees that are members of the Arizona State Retirement System (ASRS) for their on-going contribution into the System. Since the establishment of the ASRS, the law has been that an employee's retirement contribution was paid 50 percent by the employee and 50 percent by the employer. In order to reduce costs to the State, beginning July 1, 2011 the Legislature adjusted that ratio so that the employee paid 53 percent and the employer paid 47 percent of the contribution. Because the County is a participant in the ASRS, as are most local political subdivisions in the State, the adjustment applied to us as well.

A lawsuit was successfully filed challenging this adjustment as an unconstitutional impairment of the employment contract entered into with all existing members of the ASRS. As a result, legislation is pending to re-establish the 50/50 ratio of responsibility for contributions effective July 1, 2012 and require that all participating employers refund to their employees the amount they were required to contribute to the ASRS during Fiscal Year 2011/12 that was in excess of 50 percent. This refund equals approximately 0.67 percent of the compensation paid by the County in Fiscal Year 2011/12 to employees who are members of the ASRS.

The total amount of the refund for General Fund supported employees is $1,556,000 which I recommend be allocated from the ending fund balance.

5. **University of Arizona Medical Center - South Campus**

Beginning in Fiscal Year 2010/11 the County entered into a two year agreement with the Arizona Board of Regents (ABOR) on behalf of the University of Arizona College of Medicine for funding of what is now designated the University of Arizona Medical Center – South Campus. Funding under this agreement sustained this County owned facility as it transitioned into a newly structured, integrated two-hospital medical education system. The total amounts paid pursuant to the agreement were $20,000,000 in Fiscal Year 2010/11 and $15,000,000 in the current Fiscal Year 2011/12.

In May, 2012 a second two year contract with ABOR will be brought to the Board of Supervisors for consideration and potential approval. This proposed agreement will provide for annual base funding of $15,000,000 in consideration for a variety of services being provided at the South Campus complex that will benefit the County and the health of its residents. Assuming approval of a new agreement, I recommend that the proposed funding of $15,000,000 be allocated from this year's ending fund balance.

6. **Non-General Fund Subsidies**

It has been the policy of the Board of Supervisors for many years to not allow deficits in Non-General Fund funds to rollover from year-to-year on a long term basis. Such accumulated deficits ultimately become liabilities of the General Fund and undermine the fiscal stability and integrity of the County.

Three funds, Solid Waste Services, Development Services, and Stadium District, have been especially hard hit by the prolonged economic recession and the corresponding reduction in their revenues. In the case of the Stadium District, termination of agreements for Spring Training by Major League Baseball teams has compounded the decline in revenues. Management initiatives have been progressively implemented since the recession began to adjust to the changed economic environment by reducing costs and maximizing available revenues. Three fiscal years ago the total subsidy to these funds was $5,500,000. In the current year's Budget the total amount needed was reduced to $3,300,000.

I recommend that this same amount, $3,300,000, be budgeted for Fiscal Year 2012/13 from the ending fund balance and allocated as follows: Solid Waste Services - $800,000, Development Services - $1,000,000, and Stadium District - $1,500,000.

7. **General Fund Reserve**

In Fiscal Year 1996/97 the General Fund Reserve was budgeted at zero. Since that time the Board of Supervisors has taken a variety of significant actions to stabilize the finances and enhance the fiscal integrity of the County. This has enabled the Reserve Fund to be steadily increased.

The Government Finance Officers Association recommends, as the preferred benchmark, that two month's operating costs or 16.66 percent of operating revenues, be set aside as fund balance. They further recommend that in no event should less than 5 percent be set aside as a bare, minimum amount. For the past six years the Board of Supervisors has been able to achieve or exceed the minimum 5 percent reserve within the adopted Budget.

Increasing the budgeted reserve has contributed to an enhanced bond rating being assigned to the County which has saved approximately $2,000,000 annually in reduced interest payments on County bond projects. The reserve has also enabled the County to sustain the negative fiscal impacts of a variety of unforeseen events over which the County has had little or no control.

The persistently weak economy has put the County in an increasingly uncertain operating environment. The primary property tax base began contracting in Fiscal Year 2010/11 and declined 7.04 percent in the current fiscal year. It is projected to decline by another 2.84 percent in Fiscal Year 2012/13. It is anticipated that the real estate market and construction industry in the County will take several years thereafter to fully recover. In addition, actions of the State that financially impact the County have become increasingly erratic and unpredictable while trending toward increased shifting of problems to local government.

Consequently, increasing the Reserve Fund balance above the minimum benchmark of 5 percent has become an important goal. In the current year's adopted Budget the Board of Supervisors appropriated $34,774,388 or 7.5 percent of General Fund revenues and operating transfers-in to the Budget Reserve.

In April, 2012 the Board of Supervisors directed that $5,000,000 that would otherwise be available to be budgeted in the General Fund Reserve be allocated to road repair. This was in response to many years of diversion by the State of Highway User Revenue Fund dollars from local governments that has resulted in severe deterioration of County roads. This allocation is included in the $10,000,000 appropriation recommended in Section III(B)(1) above.

After all of the appropriations recommended above, the amount remaining of the projected Fiscal Year 2011/12 General Fund ending balance is $30,112,028. This amount, though less than the 7.5 percent budgeted in the Reserve Fund this year, is 6.6 percent of General Fund base operating revenues and exceeds the minimum benchmark of 5 percent.

C. Summary of Recommended Uses of General Fund Ending Balance

Table 1 below summarizes the recommendations discussed in Section III(B) above for allocation of the non-recurring, one-time resources projected as the Fiscal Year 2011/12 available ending fund balance of $66,015,105.

Table 1
Recommended Allocation of Fiscal Year 2011/12
General Fund Ending Balance

Recommendation		Amount
Road Repair		$10,000,000
Primary and General Elections		5,047,077
PC Wireless Integrated Network		1,000,000
Employee Retirement Contribution Refund		1,556,000
UofA Medical Center – South Campus		15,000,000
Non-General Fund Transfers		3,300,000
General Fund Reserve		30,112,028
	TOTAL	**$66,015,105**

IV. General Fund Base Budget: Fiscal Year 2012/13

A. General Fund Base Budget Revenues

Assuming continuation of the current primary property tax rate of $3.4178, projected Fiscal Year 2012/13 base budget revenues and operating transfers to the General Fund total $458,601,054. This is a $6,681,275 or 1.4 percent decrease from the current year's budgeted revenues and operating transfers to the General Fund and a $22,157,542 or 4.6 percent decrease from budgeted base revenues two years ago in Fiscal Year 2010/11.

Below is a brief discussion of each category of projected General Fund base revenues:

1. General Government Revenues Other Than Property Taxes

Excluding primary property tax revenues, projected Fiscal Year 2012/13 base budget General Government revenues from all other sources is $136,421,083, which is a $1,332,201 or 0.99 percent increase from the current Adopted Budget. Though a slight increase is projected, General Government revenues other than property taxes will be $27,805,226 or 16.9 percent less than its Fiscal Year 2006/07 peak of $164,226,309. The largest revenue stream in this category, state shared sales tax, is projected to increase by $7,417,300 or 8.6 percent to $93,646,000. This increase reflects a recovery in consumer confidence and corresponding retail activity that has been stronger than was anticipated last year. Even with this positive projection for next fiscal year, however, it is still $13,286,435 less than the County received at its peak in Fiscal Year 2006/07.

Almost entirely offsetting the increase in sales tax revenues are projected decreases in several other categories of General Government revenues including $1,035,000 less from Federal Payments in Lieu of Property Tax (PILT) as a result of reduced congressional funding, $275,000 less of interest income from fund balances as a result of historically low rates, and $4,860,835 less received from grant, enterprise and special revenue funds for central administrative support services as a result of fewer state and federal grants available and received by the County and the dissolution of the Pima Health System.

2. Primary Property Tax Revenues

The Preliminary Primary Net Assessed value for Fiscal Year 2012/13 totals $8,073,937,734. This is a net $236,182,478 or 2.84 percent decrease from the current year and $865,709,526 or 9.68 percent less than two years ago in Fiscal Year 2010/11. Next fiscal year the market value of existing property in the County will decrease by 3.7 percent, however, this will be partially offset by an increase of 0.86 percent as a result of new construction added to the tax base.

This contraction of the property tax base is projected to continue in Fiscal Year 2013/14 by more than 4 percent.

Because the primary tax base will decrease next year, use of the current year's tax rate will result in a levy amount which is less than the current year's. Assuming the same primary rate as this year of $3.4178 per $100 of assessed value, the resulting primary levy is $275,951,044. This is $8,072,245 less than the amount levied in this year's Adopted Budget.

State Truth in Taxation statutes determine what the County's revenue neutral primary property tax levy is each year. A neutral levy and corresponding tax rate is defined as the previous year's levy plus additions to the tax base from new construction. This statutory benchmark is more restrictive than the County's Levy Limit imposed by the Arizona Constitution which is indexed to reflect a modest annual rate of inflation of 2 percent.

The County would have to increase the primary property tax rate in order to reach a neutral levy. Pursuant to statute the County's neutral primary rate is $3.5480 or 13.02 cents higher than this year's rate. The resulting neutral primary levy is $10,512,267 or 3.8 percent greater than the levy produced by the current year's rate. The Primary Levy Limit imposed by the Arizona Constitution, which affords an annual increase of 2 percent to account for inflation, allows the County's primary rate to be increased to $4.2788 or 86.10 cents higher than the current year's rate. The resulting constitutionally capped levy is $69,516,604 or 25 percent greater than the levy produced by the current rate.

In addition to collection of current year property taxes, the County also receives revenue from the payment of delinquent property taxes from prior years and associated interest and penalties. Together with the projected primary property tax collection next year, assuming continuation of the existing rate of $3.4178, the total base property tax revenues projected for Fiscal Year 2012/13 are $280,910,688. This amount is $6,222,190 less than the total primary property tax revenues adopted in this year's Budget.

3. **Departmental Revenues**

Base budget General Fund revenues from departments and operating transfers-in for Fiscal Year 2012/13 are projected to be $41,269,283. This is a $1,791,286 or 4.2 percent decrease from the current year's Budget. This projected decrease reflects the continued decline in local economic activity and the corresponding reduction in utilization of County services for fees. Departmental revenues have declined by a total of $35,386,999 over the last five years when the economic recession began.

B. General Fund Base Budget Expenditures

The amount required to fund General Fund supported base budgets for both departmental expenditures and transfers-out is $458,440,941, which is $9,255,844 or 2 percent less than the current year's budget. This base expenditure amount represents adopted departmental budgets adjusted for new or amended federal and state mandated expenditures, recurring supplemental requests, annualized as appropriate, that were adopted in the current year's budget, impacts to base pursuant to Board adopted budget policies and prior directives, and decreases for one-time expenditures in the current year.

Since the economic recession began more than four years ago, a series of across-the-board reductions in departmental budgets have been implemented. The cumulative reduction in departmental budgets during this time has been approximately 11.5 percent, except the Sheriff's Office which has been reduced by 2.5 percent. Collectively over four years, these actions have reduced General Fund expenditures substantially. Since Fiscal Year 2008/09 General Fund base expenditures have been reduced $37,525,748 or 7.6 percent.

Significant components within recommended base budget expenditures include:

- $244,267,426 or 50 percent of General Fund expenditures for Justice and Law Enforcement functions.

- $67,083,312 for mandated payments to fund state programs for indigent acute, long-term, and mental health.

- $11,389,703 for adult and juvenile detention health care.

- $80,407,458 for General Fund employee benefits including $8,088,303 for the increased costs of medical insurance and employer contributions to the four separate state retirement systems in which various employee groups and officials participate.

- $744,994 in the Board of Supervisors' Contingency Fund, the same amount appropriated in the current year's Budget.

- $3,888,644 for allocation to Outside Agencies, the same amount appropriated in the current year's Budget.

V. Recommended Adjustment to General Fund Base Expenditures

As discussed in Section IV above, the projected base revenues of $458,601,054 are $160,113 more than are required to fund projected base expenditures of $458,440,941.

During the course of developing this Recommended Budget many fiscal needs within the County were identified and justified, but for which inadequate resources exist to fund. In particular, though the County has continued to fund substantial increases in employee benefit costs, employee compensation has not been adjusted to address increases in the cost of living for four years. County employees should be treated fairly. In order to remain competitive and retain the high level of quality in our workforce, compensation will need to be addressed in future budgets.

In addition, I am not recommending that any of the departmental requests submitted for supplemental funding be approved. Numerous federal and state grants currently providing funding for a variety of services throughout the County are positioned for possible reduction or elimination during Fiscal Year 2012/13. If any such reductions occur, and a department or office is unable to absorb or otherwise manage through the loss of funding without jeopardizing their service responsibilities, they can submit a request for consideration by the Board of Supervisors for a transfer from the General Fund Reserve.

Though insufficient General Fund base revenues are projected for Fiscal Year 2012/13 to fund all of the identified needs of the County, I am not recommending that the primary property tax rate be increased. Maintaining the current rate will reduce primary property taxes by $8,072,245 from the current year and set the primary levy $10,512,267 below its neutral levy as defined by law. I recommend this tax reduction as an addition to the Board of Supervisors' on-going economic development plan to assist business, stimulate our local economy, and promote job retention and creation. I believe that the County and its employees can and will, as they have done during the past five years of the recession, continue to provide exceptional service to our community.

I recommend that the $160,113 of projected General Fund base revenues in excess of base expenditures identified above be allocated to the General Fund Reserve. Together with the amount recommended in Section III(B)(7) above, the total recommended budget for the General Fund Reserve is $30,272,141.

VI. The Overall Budget

A. Special Districts and Debt Service

1. County Library District

The Library District is funded by a secondary property tax and serves the entire County. In Fiscal Year 2012/13 the District's Pima County Public Library System will operate twenty-seven branches, a Book Mobile serving numerous remote locations, and maintain deposit collections at the Pima County Jail and the Juvenile Detention Center. Effective July 1, 2012, the Oro Valley Library will convert from affiliate status to a branch within the System.

The Library System conducts numerous programs such as Be an Informed Citizen, Create Young Readers, Succeed in School, Satisfy Curiosity, Literacy for Success and others. Given the economic climate over the last several years, libraries are being increasingly utilized. The Library System has responded to the community's needs by providing a wide range of services in the areas of literacy, basic education and workforce development. Library System services include tax preparation assistance, voter registration, computer instruction, homework help for students, and special assistance for job seekers. The Library also offers tutoring, homework help, language instruction, GED test preparation, book clubs, and many educational programs for children and adults.

The Pima County Public Library has a collection of 2.5 million catalogued items, provides over 700 computers for public use, and annually has over 5.6 million visits. The System offers an increasing number of digital items to its patrons including ebooks and audiobooks. Community groups use library meeting facilities to hold meetings and as gathering places where people interact and share information.

The Library District also partners with many community organizations to provide educational opportunities to the public. The Library System is a member of the Literacy for Life Coalition which promotes collaboration between business, government, educational organizations, the media and non-profits to create a culture of literacy. The Library System is a partner in the Tucson Festival of Books celebrating reading, authors and books. These efforts contribute to economic development and the quality of life for Pima County residents.

In January of 2012 the Pima County Public Library, in partnership with the Pima County Health Department, became the first library in the nation to employ a public health nurse on site. The public health nurse circulates among several branches of the Library System providing health education assistance as well as referring patrons with health issues to resources within the community.

The County Library District's secondary property tax base continues to decrease during this ongoing period of economic decline. The District's Secondary Net Assessed Value experienced a decline of 5.3 percent in Fiscal Year 2010/11, a further decline of 9.2 percent in Fiscal Year 2011/12 and is projected to decline 3.28 percent in Fiscal Year 2012/13.

The total Fiscal Year 2012/13 Recommended Budget for the District for operating costs, grants and operating transfers-out is $34,733,767, which is a $2,443,809 increase from the current year's budgeted amount. This includes increases in funding for assistive technology, building maintenance costs, the assumption of the Oro Valley Library and funding for a public printing software package.

The recommended Library District property tax rate for Fiscal Year 2012/13 is $0.3460 per $100 of assessed value and is unchanged from Fiscal Year 2011/12. This tax rate is projected to provide $28,005,219 in revenues that will be supplemented by $1,237,000 from fines, interest, grants and miscellaneous revenue, and $5,491,548 from the Library District fund balance in order to meet the recommended overall budget of $34,733,767.

The recommended levy for the Library District will reduce this secondary property tax by $958,661 or 3.28 percent.

2. **Debt Service Fund**

The total Recommended Fiscal Year 2012/13 Debt Service Fund budget is $112,966,351, a $12,142,142 increase from the current fiscal year. The Debt Service Fund includes payments on the County's General Obligation debt, the Street and Highway Revenue Bond debt, and Certificates of Participation debt, all of which are long-term debt.

- General Obligation Debt Service

  The County's General Obligation Debt Service is funded with a secondary property tax levy. The recommended General Obligation debt service of $64,920,089, a decrease of $6,260,481 from Fiscal Year 2011/12, will fund existing debt service as well as debt service on a proposed $50,000,000 bond sale expected to occur in the spring of 2013.

  As originally planned when the 1997 Bond Program began, the debt service on new bond sales supported by the secondary tax levy is being offset by ongoing reductions in debt service for existing outstanding bonds. As the 1997 bonds are being retired, 2004 bonds and 2006 bonds are being sold incurring new debt. The County has several major improvement projects this fiscal year, including the Justice Court/Municipal Court Complex, the communications emergency operations center, the regional public safety radio system (PCWIN), and various park improvement projects.

  The County manages the issuance of its debt to provide timely, adequate funding to maintain the on-going capital improvement program. In order to properly time the issuance of debt to minimize outstanding balances and manage the level of debt service to avoid significant spikes in payments in any year, the County generally issues debt on an annual basis for General Obligation bonds and for Sewer Revenue debt, and bi-annually for Highway and Street Revenue bonds.

I recommend that the General Obligation Debt Service tax rate remain unchanged at $0.7800 per $100 of assessed value for Fiscal Year 2012/13.

This recommendation will reduce property taxes for this secondary levy by $2,161,143 or 3.28 percent.

- Street and Highway Revenue Debt Service

  The 1997 Transportation Bond authorization provides for the sale of Street and Highway Revenue bonds with the debt service being repaid from the Highway User Fund (HURF) revenues the Transportation Department receives from the State of Arizona. The recommended Street and Highway Revenue Bond debt service for Fiscal Year 2012/13 of $18,291,321 will fund existing debt service.

- Certificates of Participation Debt Service

  The Certificates of Participation debt service includes the Certificates of Participation (COPs) issued for the Jail Facility, the COPs issued in 2007 for the Bank of America Building, and the COPs issued in 2010 to finance the PimaCore project for the acquisition of a countywide resource management system. The recommended debt service of $29,754,941 will fund existing debt service, as well as debt service on a proposed $54,500,000 sale. From this sale, $30,000,000 will fund a short-term cash flow requirement affecting construction of sewer projects, $18,500,000 will fund construction of Fleet Services facility improvements and $6,000,000 will fund the construction of Curtis Park.

3. **Regional Flood Control District**

The Regional Flood Control District's secondary property tax base continues to decrease. The District's Secondary Net Assessed Value experienced a decline of 4.0 percent in Fiscal Year 2010/11, a further decline of 10.1 percent in Fiscal Year 2011/12 and is projected to decline 4.65 percent in Fiscal Year 2012/13. The District has responded to these declines by reducing costs and the amount of funding transferred to its Capital Improvement Program while maintaining a consistent property tax rate.

The recommended operating budget for the Regional Flood Control District is $11,457,002, which is $586,948 less than the current fiscal year's budget. Also recommended are operating transfers of $9,894,272 including $9,844,737 to the Capital Projects Fund, and $49,535 to the Debt Service Fund for the department's share of debt service on Certificates of Participation issued in 2010. This is a decrease of $4,161,942 in operating transfers from the current fiscal year.

Flood Control Capital Projects funds are used to acquire, construct, expand and improve flood control facilities within the County including bank stabilization, channels, drainage ways, dikes, levees, and other flood control improvements. This includes funding to provide federal and state mandated floodplain management services and to continue the Board approved Riparian Protection Program as a component of the Sonoran Desert Conservation Plan, and to procure flood prone land contiguous to existing watersheds within the County. These land acquisitions serve the dual purpose of protecting existing riparian habitat corridors and preventing future flood damages.

I recommend that the Regional Flood Control District's tax rate be maintained at $0.2635 per $100 of assessed value. Overall projected revenues are $19,075,328 for Fiscal Year 2012/13, which is a decrease of $1,343,440 from the current fiscal year. This reduction reflects the continuing impact of the ongoing decrease in the District's Secondary Net Assessed Value.

The recommended levy of the Flood Control District will reduce this secondary property tax by $935,954 or 4.65 percent.

4. **Stadium District**

After losing Major League Baseball spring training, the Stadium District has made efforts to build awareness of the Kino Veterans Memorial Sports Complex as a multi-use venue to attract new users. During the current year the District has maximized utilization of its facilities, promoted the types of venues that are available, and cultivated new relationships within the sports and entertainment networks.

Sports and entertainment events hosted over the last year include the Kino Gem Show, two Korean professional baseball teams practicing at the facilities for six weeks, the Casino Del Sol All Star Football Game, College Rugby matches and the Desert Diamond Cup Professional Soccer Tournament.

These activities took place amid a full schedule of baseball tournaments attracting out of town teams to Tucson. In addition, Kino Veterans Memorial Sports Complex hosted three major league spring training games in March. The minor league baseball team, the Tucson Padres, began their second season at the Stadium facility in April.

The Stadium District has reached agreements with FC Tucson to use the Kino Sports Complex as its home field for its semi-professional soccer season. These agreements include permanently converting one baseball field to a soccer field meeting international soccer standards and the future conversion of other fields and upgrading of facilities.

Funding for the Stadium District comes from four main sources: a $3.50 per contract car rental surcharge; a $0.50 per day rental tax on recreational vehicle spaces; a 2 percent hotel/motel tax in the unincorporated area of the County; and revenue from baseball and other events scheduled at Kino Veterans Memorial Complex. The ongoing recession has severely reduced tourist and recreational activities resulting in an approximate 25 percent decline in revenue over the past five years from the hotel/motel, car rental and recreational vehicle taxes.

While the Stadium District is making positive headway in marketing itself as a multi-use venue, the loss of Major League Baseball continues to have a profound impact on overall finances. Efforts to identify alternate major league occupants have not been successful. Efforts like those described above and the continuing effort to interest professional baseball teams, both domestic and international, in its facilities will, however, continue to improve the District's financial position in the future.

The loss of Major League Baseball coupled with the economic downturn has resulted in the need to take actions to maintain the financial stability of the Stadium District. During Fiscal Year 2011/12 revenues are improving, but are still projected to be insufficient to cover the Stadium's operating, maintenance and debt service costs. Consequently, the full subsidy of $1,500,000 budgeted in Fiscal Year 2011/12 will be approved for transfer from the General Fund at the end of the fiscal year. The District's Fiscal Year 2012/13 recommended budget for operating, maintenance and debt service paid to the General Fund is slightly increased at $8,065,351 reflecting the growth in utilization of its various venues. Revenues and operating transfers into the District of $5,658,004 and remaining fund balance will not cover the entire Recommended Budget amount. Therefore, as discussed in Section III(B)(6) above, I am recommending that the General Fund continue to set aside $1,500,000 to subsidize the Stadium District in Fiscal Year 2012/13.

B. Annual Capital Projects Fund Budget and Capital Improvement Plan Budget

As set forth in Table 2 below, the Fiscal Year 2012/13 recommended Capital Improvement Plan of $482,651,956 consists of the Capital Projects Fund Budget of $224,127,426 and the Capital Projects of Regional Wastewater Reclamation of $237,701,151, Fleet Services of $18,366,432, and Telecommunications of $2,456,947. A complete list of projects for the Recommended Capital Improvement Plan is included in the Capital Projects section of this Recommended Budget Book.

Table 2
Recommended Fiscal Year 2012/13 Capital Projects Fund Budget and Capital Improvement Plan Budget

Capital Improvement Plan	FY 2011/12 Bond and Non-Bond Project Budgets	FY 2012/13 Bond and Non-Bond Project Budgets	Difference	1997 Bonds	2004/2006 Bonds	Non-Bonds
Capital Projects Fund						
Transportation	$65,170,961	$81,049,405	$15,878,444	$14,581,016	-	$66,468,389
Facilities Management	67,190,735	62,352,941	(4,837,794)	130,452	28,666,772	33,555,717
Sheriff's Department	26,561,383	35,649,527	9,088,144	-	35,649,527	-
Regional Flood Control District	20,973,632	13,843,587	(7,130,045)	-	2,313,996	11,529,591
Parks and Recreation	12,132,559	9,125,683	(3,006,876)	314,238	8,650,346	161,099
Open Space	12,290,824	8,035,151	(4,255,673)	234,296	6,304,887	1,495,968
Information Technology	2,528,696	6,408,822	3,880,126	-	-	6,408,822
Community Development	5,048,550	4,705,938	(342,612)	-	4,705,938	-
Office of Sustainability and Conservation	2,674,225	1,332,585	(1,341,640)	15,760	1,279,350	37,475
Finance and Risk Management	5,991,216	963,787	(5,027,429)	-	-	963,787
Environmental Quality	596,679	660,000	63,321	660,000	-	-
Total Capital Projects Fund	**$221,159,460**	**$224,127,426**	**$2,967,966**	**$15,935,762**	**$87,570,816**	**$120,620,848**
Wastewater Reclamation Budget	$238,636,349	$237,701,151	$(935,198)	-	-	$237,701,151
Telecommunications Budget	2,078,000	2,456,947	378,947	-	-	2,456,947
Fleet Services Budget	1,647,875	18,366,432	16,718,557	-	-	18,366,432
Total Capital Improvement Plan	**$463,521,684**	**$482,651,956**	**$19,130,272**	**$15,935,762**	**$87,570,816**	**$379,145,378**

1. **Capital Projects Fund Budget**

The recommended $224,127,426 Capital Projects Fund Budget for Fiscal Year 2012/13 is an increase of $2,967,966 from the current year's budget of $221,159,460.

Of the total Capital Projects Fund, $15,935,762 is funded through 1997 bonds, $87,570,816 is funded through 2004/06 bonds, and the remaining $120,620,848 is funded through other non-bond sources.

The major budgeted projects for Fiscal Year 2012/13 include $42.2 million for the Justice Court/Municipal Court Complex, funded with $19.6 million 2004 General Obligation (GO) bonds, and $22.5 million from Other Special Revenue; $22.9 million for the Regional Public Safety Communications System (PCWIN), funded with 2004 GO bonds; $17.9 million for the new Fleet Services Facility funded with Certificates of Participation; and $8.7 million for the Communications Emergency Operations Center funded with 2004 GO bonds.

The Department of Transportation has four major projects included in the Fiscal Year 2012/13 Recommended Budget. The La Cholla Boulevard, Magee Road to Overton Road project is budgeted for $10.2 million and is funded primarily with Regional Transportation Authority (RTA) sales tax. The La Canada Drive, Ina

Road to River Road project is budgeted for $8.9 million, funded with $6.3 million from Other Special Revenue, $1.6 million of RTA sales tax and $1.1 million from Other Operating Revenue. The Magee Road, La Canada Drive to Oracle Road project is budgeted for $8.7 million, funded with $4.4 million of RTA sales tax, $2.3 million of Other Special Revenue, $1.8 million of Highway User Revenue Fund (HURF) bonds; and $0.2 million from County HURF revenues. The Magee Road/Cortaro Farms Road, Thornydale Road to Mona Lisa project is budgeted for $8.1 million and is funded with State Shared Highway User Fees.

2. **Regional Wastewater Reclamation Capital Budget**

The Fiscal Year 2012/13 recommended capital budget for the Regional Wastewater Reclamation Department (RWRD) is $237,701,151, a decrease of $935,198 from Fiscal Year 2011/12. The Fiscal Year 2012/13 Capital Program is planned to be funded entirely with RWRD Obligations. Included are multiple projects in the Regional Optimization Master Plan (ROMP) totaling $154.4 million, and two Ina Road Biosolids Facilities Improvement projects totaling $30.2 million.

3. **Telecommunications Capital Budget**

The Fiscal Year 2012/13 recommended capital budget for Telecommunications is $2,456,947, an increase of $378,947 from Fiscal Year 2011/12. The budget includes $1.3 million for the Voice over Internet Protocol (VoIP) phone system. This will be paid for using the accumulated fund balance in the Telecommunications Internal Service Fund.

4. **Fleet Services Capital Budget**

The Fiscal Year 2012/13 recommended capital budget for Fleet Services totals $18,366,432 and will be used primarily for the new Fleet Services Facility that will be funded through Certificates of Participation. This represents an increase of $16,718,557 from Fiscal Year 2011/12.

C. **Combined Total County Budget**

1. **Combined County Property Tax Levy and Rate**

The combined primary and secondary property taxes levied by the County fund 32 percent of the total County Recommended Budget expenditures. These are the only County revenues over which the Board of Supervisors has substantial control. The remainder of the County Budget is supported almost entirely by charges for services and intergovernmental revenues, primarily state revenue sharing and grants.

The value of the County's property tax base, both primary and secondary, has decreased the last two years. In Fiscal Year 2011/12 the primary tax base decreased 7.04 percent and secondary tax base decreased 9.21 percent. In Fiscal Year 2012/13 the primary tax base will decrease an additional 2.84 percent and the secondary tax base will decrease by 3.28 percent.

Consequently, the rates recommended in the sections above will result in a property tax reduction in all four County levies. The combined property tax reduction is $12,128,003 as set forth in Table 3 below.

Table 3
Combined County Property Tax Levy and Reduction

	FY 2011/12 Adopted Levies	FY 2012/13 Recommended Levies	Difference
Primary	$284,023,289	$275,951,044	($8,072,245)
Library District	29,231,054	$28,272,393	(958,661)
Debt Service	65,896,596	63,735,453	(2,161,143)
Flood Control District	20,116,215	19,180,261	(935,954)
TOTAL	**$399,267,154**	**$387,139,151**	**($12,128,003)**

The primary and all secondary property tax rates are recommended to remain the same as Fiscal Year 2011/12 as shown in Table 4 below.

The recommended combined County property tax rate is unchanged at $4.8073 per $100 of assessed valuation.

Table 4
Combined County Property Tax Rates

	FY 2011/12 Adopted Rates	FY 2012/13 Recommended Rates	Difference
Primary	$3.4178	$3.4178	$0.0000
Library District	0.3460	0.3460	0.0000
Debt Service	0.7800	0.7800	0.0000
Flood Control District	0.2635	0.2635	0.0000
TOTAL	**$4.8073**	**$4.8073**	**$0.0000**

2. Combined County Budget

The combined Recommended County Budget, reflected in the budget schedules and departmental budget summaries following this memorandum, is $1,232,118,864. This is a $70,283,458 or 5.40 percent decrease from the

Fiscal Year 2011/12 Adopted Budget. It is a $250,595,632 or 17 percent decrease from five years ago in Fiscal Year 2007/08.

Specific significant decreases in the overall County Budget include:

- $69,926,412 decrease in the Pima Health System Fund as the result of the sale of the County's skilled nursing facility, Posada del Sol.
- $22,376,589 reduction in anticipated expenditures from the County's Property Tax Stabilization Fund.
- $13,373,350 of reductions within various funds as revenue received under several American Recovery and Reinvestment Act (ARRA) grants will decrease. The largest reductions are in Health Fund Grants primarily due to the end of the ARRA Communities Putting Prevention to Work federal stimulus grant and various grants within the Community Development Grants Funds.

Partially offsetting these decreases are numerous increases including:

- $14,579,599 for overall employee benefits increases in all County Funds.
- $12,142,142 in the Debt Service Fund as discussed in Section VI(A)(2) above.
- $11,570,870 of increased expenses in the Regional Wastewater Reclamation Fund primarily due to increases in debt service costs.
- $7,219,936 increase in the operating transfer to the Transportation Fund from the General Fund for pavement preservation for a total appropriation of $10,000,000 as discussed in Section III(B)(1) above.
- $2,967,966 increase in expenditures in the Capital Projects Fund as discussed in Section VI(B)(1) above.
- $2,443,809 in the County Free Library operating and grant expenditures as discussed in Section VI(A)(1) above.
- $1,000,000 transfer from the General Fund to the new Radio System Fund for the first transitional year of operating and maintenance costs associated with the Pima County Wireless Integrated Network.

CHH/dr

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