MEMORANDUM

Date: April 30, 2013

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

From: C.H. Huckelberry
County Administrator

Re: **Transmittal of Recommended Fiscal Year 2013/14 Budget**

Introduction

This memorandum is to transmit the Recommended Fiscal Year 2013/14 Budget for Pima County. These recommendations are made based on information available in mid-April 2013. 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 21, 2013	Budget Hearing
May 21, 2013	Tentative Budget Adoption (Sets Budget Ceiling)
June 18, 2013	Final Budget Adoption
August 19, 2013	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.

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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 including law enforcement, healthcare, road repair and economic development.

Like all governments in Arizona, Pima County has necessarily adjusted to reduced revenues and increased service demands during this economic recession. More than five 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.

The cumulative effect of these departmental budget reductions has been substantial. General Fund supported departments have been reduced about 11.5 percent, except the Sheriff's Office which was reduced only 2.5 percent. In addition to these reductions, departments have not received additional resources to address inflationary increases to operational costs or the steady decline of federal and state special and grant revenues that have historically supplemented their core services. The result over time is that departments have been unable to reinvest in the programmatic infrastructure to support their functions. Consequently, further across-the-board budget reductions are not recommended. In order to maintain current service levels, additional General Fund revenues are required.

The current primary property tax rate of $3.4178 is recommended to be increased 24.05 cents. Because of the on-going reduction in the value of the County's property tax base, the primary levy has been reduced more than $39 million over four years. The recommended increase in the primary rate will produce only $584,576 or 0.2 percent more than the current year's levy, $4.6 million less than the revenue neutral levy as determined by the Truth in Taxation statutes and $82.5 million less than the Constitutional Levy Limit that is indexed for inflation. The additional revenues from the increased rate are recommended for use in maintaining current service levels including continuation of the program to accelerate road preservation, address inflation and declining federal and state revenues in the Sheriff's Office and County Attorney's Office and to begin to address the impact of inflation on employee compensation in order to remain competitive and retain talent.

It is recommended that the secondary property tax rates for Debt Service and Regional Flood Control District remain unchanged and that the Library District rate be increased 2.93 cents. Combined with the recommended increase of 24.05 cents in the primary rate, the combined County property tax rate is $5.0771 or 26.98 cents more than the current year. Because of the 6.38 percent reduction in the value of the primary property tax base and 6.07 percent reduction in the secondary tax base next year, less taxes will be levied than in Fiscal Year 2012/13. The combined County property tax levy is $382,559,498 or $4,298,010 less than the current year.

The recommended combined total County Budget for Fiscal Year 2013/14 is $1,266,155,617 which is a 2.65 percent increase from the current year's Adopted Budget, but a 14.61 percent decrease from six years ago.

II. Summary of Key Budget Issues

- The projected General Fund available ending balance for Fiscal Year 2012/13 is $44,056,613, an increase of $14,126,026 over the budgeted General Fund Reserve of $29,930,587.

- It is recommended that the non-recurring Fiscal Year 2012/13 ending balance be allocated for the following purposes:

    - $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.

    - $2,800,000 to fund subsidies to Solid Waste Services, Development Services and the Stadium District.

    - $3,456,570 to fund one-time, lump sum compensation awards to employees based on the length of time they have been employed by the County without an adjustment to address inflation.

    - $22,800,043 as the General Fund Reserve for Fiscal Year 2013/14 which is 4.82 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 2013/14 are projected to be $473,161,846 which is $13,860,792 or 3 percent more than the current year.

- Projected General Fund base revenues would have been $4,639,208 or 1 percent less than budgeted revenues in the current year but for a one-time transfer of $18,500,000 as a result of the dissolution of the Pima Health System.

- Excluding primary property taxes, General Government revenues from all other sources are projected to increase $9,084,921 or 6.7 percent.

- The value of the net primary property tax base is projected to decrease 6.38 percent which will result in a decrease in the primary levy of $17,595,130 at the current rate.

- General Fund base expenditures and transfers-out for Fiscal Year 2013/14 are projected to be $477,165,950 which is $19,825,009 or 4.1 percent more than the current year's.

- General Fund base expenditures exceed base revenues by $4,004,104.

- It is recommended that the primary property tax rate be increased by 24.05 cents to a total rate of $3.6583.

- The recommended rate increase will produce $17,510,147 of additional primary property tax revenues for allocation as follows:

  - $4,004,104 to fund the deficit in General Fund base revenues to base expenditures.

  - $4,505,480 to fund an across-the-board cost of living adjustment for employees of 1 percent at the beginning of the fiscal year and an additional 2 percent at the beginning of 2014.

  - $5,000,000 to accelerate preservation and rehabilitation of county roads.

  - $4,000,563 to adjust the budgets of the Sheriff's Office and County Attorney's Office to supplement lost federal and state special revenues and address inflationary increases to operational costs.

- The recommended primary property tax levy of $276,535,620 is $584,576 or 0.2 percent more than the adopted levy in the current year, $4,594,561 less than the statutorily determined Truth in Taxation revenue neutral levy, and $82,454,980 less than the constitutional Levy Limit that is indexed for inflation.

- The recommended budget for the Library District is $35,394,250, a $660,483 increase from the current year, and the tax rate is recommended to increase 2.93 cents to $0.3753.

- The recommended budget for Debt Service is $124,043,471 and the tax rate to support the General Obligation portion of that budget is recommended to remain unchanged resulting in a property tax reduction of $4,270,661.

- The recommended operating budget for the Regional Flood Control District is $12,624,028, an increase of $1,167,026 from the current year, and the tax rate is recommended to remain unchanged resulting in a property tax reduction of $1,142,225.

- The combined, total County property tax rate is increased 26.98 cents, however, the levies produced by this rate will decrease $4,298,010 from the current year.

- The combined, total Recommended County Budget for Fiscal Year 2013/14 is $1,266,155,617 which is $32,659,176 or 2.65 percent more than the current year, but $216,558,879 or 14.6 percent less than six years ago.

III. General Fund Ending Fund Balance: Fiscal Year 2012/13

A. Positive Ending Fund Balance

The projected General Fund available ending balance for Fiscal Year 2012/13 is $44,056,613. This is the projected increase of $14,126,026 over the budgeted General Fund Reserve of $29,930,587. This ending balance represents 9.6 percent of projected revenues for Fiscal Year 2012/13 compared to the target ending fund balance of 6.6 percent.

This net increase of $14,126,026 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 $11.5 million greater than was anticipated at the time the Fiscal Year 2012/13 Budget was adopted. Numerous General Fund revenues from State and County sources at the end of last fiscal year were greater than estimated including State Shared Sales Taxes and property tax collections. In addition, several General Fund expenditures, through a variety of management initiatives, were reduced below their budgeted amounts during the current fiscal year including operating efficiencies in County facilities and reduction in the cost of operating the Kino Recreation Center resulting from partnering with the YMCA.

B. Recommended Uses of General Fund Ending Balance

Set forth below are my recommendations for use of the $44,056,613 of non-recurring, one-time resources projected as the available ending balance of the General Fund on June 30, 2013.

1. University of Arizona Medical Center - South Campus

Pima County has had a commitment to the health and welfare of the residents of our community for over 100 years. The County has strengthened that commitment over the last 35 years with the development and expansion of what is now the Kino Campus, of which the hospital and medical center are key components.

Significant transformation has occurred since the operation of the hospital was leased to University Physicians, Inc. (UPI), the predecessor to what is now known as the University of Arizona Medical Center – South Campus (UAMC–SC). In June 2004, UPI, as the new licensed provider at the hospital, assumed responsibility for a hospital with approximately 50 Level 1 acute psychiatric inpatients, less than 10 medical/surgical patients and a closed intensive care unit (ICU). The hospital had discontinued its base hospital status in the countywide emergency medical system. The lack of staffed operational ICU beds, combined with the loss of base hospital status, resulted in reduced utilization of the emergency department for critical care services by the community. While certain primary and specialty physicians were at the site prior to June 2004, services were not fully utilized or integrated into the community. At that time, operating losses of more than $30 million per year were expected for the foreseeable future.

Over the past several years, the partnership between Pima County and the University of Arizona has allowed the hospital to align incentives and expand opportunities within the academic medical system through restructuring and expansion of clinical programs and other operations.

Beginning in Fiscal Year 2010/11 the County entered into a two year agreement with the Arizona Board of Regents on behalf of the University of Arizona College of Medicine for funding of UAMC-SC. In May 2012, a second two year contract was approved, providing 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.

To ensure the optimal utilization of taxpayers' dollars, financial and clinical indicators are reviewed regularly to examine actual progress against benchmarks for UAMC-SC as detailed in the Agreement. A summary of key indicators are provided below.

From Fiscal Year 2005 through Fiscal Year 2012:

- Adjusted Patient Days, which is the measure of overall hospital utilization, has increased 87%;
- Average Daily Census has increased 51%;
- Emergency Department Visits have increased 22%;
- Physician Clinic Visits have increased 223%;
- Surgical Procedures have increased 296%;
- The number of residents in training at UAMC-SC has increased 547% since its inception in Fiscal Year 2009; and
- Almost $167 million in new federal funds for the UAHN hospital system has been generated using County monies for the local match for Graduate

Medical Education, Disproportionate Share Hospital and Safety Net Care Pool initiatives.

I recommend that the $15,000,000 of funding provided for in the County's Agreement with the Arizona Board of Regents for Fiscal Year 2013/14 be allocated from this year's ending fund balance.

2. **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 for 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:

- Solid Waste Services

  The County has awarded a contract to hire a private contractor to operate the County's solid waste facilities. The contract will start July 1, 2013. The County's expectation is that the successful proposer has demonstrated their ability to continue to provide the same level of service to Pima County residents at a lower cost than that currently incurred by the County. For the past several years, the annual General Fund subsidy to Solid Waste Services has been $800,000. Depending upon the outcome of the contract, the subsidy necessary for Fiscal Year 2013/14 will be equal to or less than the current year's amount. Therefore, it is recommended that the subsidy be budgeted at a continued amount of $800,000.

- Development Services

  The effect of economic conditions on construction activity remains a key factor in Development Services' financial stability. Due to the decline in annual revenues that began in Fiscal Year 2005/06, General Fund support has been provided to offset departmental operating expenses and maintain fund stability. Contributions from the General Fund to Development Services began in Fiscal Year 2009/10 after several years of reliance on the department fund balance had reduced it to an undesirable level.

  While financial support has been necessary to assist the department through the recession, it has not been the only means for stabilizing the department's financial condition. Significant efforts have been made to cut costs. Overall budgeted expenses from Fiscal Year 2006/07 to Fiscal Year 2012/13 have been reduced from $17.2 million to $6.7 million, or a 61 percent reduction. Budgeted personnel related expenses over this same period have been reduced by 56 percent; down from $11.5 million to $5.1 million. The personnel expense reductions were accomplished through a combination of attrition, transfers and layoffs. Full-time equivalents have been reduced from more than 180 positions to 54 currently filled positions, or a more than two-thirds reduction in staff. Despite these reductions, service levels have not only been maintained but have improved.

These reductions in expenditures have been required to correspond with reductions in revenues which have plummeted from $17.3 million to $6 million in the last seven years. General Fund support to the department began at $2 million in Fiscal Year 2009/10 and has been gradually reduced to $1 million in the current year's budget. Construction activity in the County has begun to stabilize and is projected to begin a slow recovery during the coming fiscal year. Therefore, I am able to recommend that this subsidy be reduced to $500,000 in Fiscal Year 2013/14.

- Stadium District

  Management initiatives to reduce costs and increase revenues through repurposing and diversifying the uses of the Stadium facilities have been progressively implemented since agreements for Spring Training by Major League Baseball were terminated. The current financial status of the Stadium District is discussed in Section VI (A)(4) below. It will continue to be necessary, however, for the General Fund to provide support to the District and, therefore, I am recommending that the current year's subsidy of $1.5 million be continued in Fiscal Year 2013/14.

Collectively, the three non-general fund subsidies recommended above total $2.8 million, down from their peak in Fiscal Year 2009/10 of $5.5 million.

3. One-Time Employee Compensation Adjustment

Pima County employees, with the exception of 1 percent related to increased retirement contributions in Fiscal Year 2011/12, have not received an across-the-board compensation increase since Fiscal Year 2007/08. Consequently, employees have lost purchasing power to consumer inflation and increases to the cost of benefits during these six years. In recognition of this difficulty I am recommending that eligible employees receive a one-time, lump sum award based upon the number of years they have been employed with the County since the last cost of living adjustment was awarded at the beginning of Fiscal Year 2007/08.

Table 1 below sets forth the recommended schedule for award of the lump sum adjustments based on the number of years incumbent employees have failed to receive a cost of living adjustment.

Table 1
Recommended One-Time Employee Compensation Awards

Employee Hire Date	Compensation Award
July 1, 2011 through June 30, 2012	$200
July 1, 2010 through June 30, 2011	$400
July 1, 2009 through June 30, 2010	$600
July 1, 2008 through June 30, 2009	$800
Prior to July 1, 2008	$1,000

Of our current workforce, 66 percent will qualify for an award of $1,000 and over 90 percent will receive an award in some amount in recognition of time employed without adjustments to address inflation.

The cost countywide of this award will be $5,317,800 of which $ 3,456,570 will be paid by the General Fund with the remainder absorbed by the non-general fund funds. The awards will be included in the paychecks issued on July 19, 2013.

4. **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 Fiscal Year 2011/12, 2.84 percent in Fiscal Year 2012/13 and another 6.38 percent next fiscal year. It is anticipated that the real estate market and construction industry in the County will take several years to fully recover. In addition, actions of the State and Federal Governments that financially impact the County have become increasingly erratic and unpredictable while trending toward increased shifting of problems to local government.

Consequently, maintaining the Reserve Fund balance at the minimum benchmark of 5 percent has become an important goal. In the current year's Adopted Budget the Board of Supervisors appropriated $29,930,587 or 6.6 percent of General Fund revenues and operating transfers-in to the Budget Reserve.

After all of the appropriations recommended above, the amount remaining of the projected Fiscal Year 2012/13 General Fund ending balance is $ 22,800,043, or 4.82 percent of General Fund base operating revenues which I recommend be allocated to the General Fund Reserve.

C. Summary of Recommended Uses of General Fund Ending Balance

Table 2 below summarizes the recommendations discussed in Section III(B) above for allocation of the non-recurring, one-time resources projected as the Fiscal Year 2012/13 available ending fund balance of $44,056,613.

Table 2
Recommended Allocation of Fiscal Year 2012/13
General Fund Ending Balance

Recommendation		Amount
U of A Medical Center – South Campus		$15,000,000
Non-General Fund Transfers		2,800,000
Employee Compensation Award		3,456,570
General Fund Reserve		22,800,043
	TOTAL	**$44,056,613**

IV. General Fund Base Budget: Fiscal Year 2013/14

A. General Fund Base Budget Revenues

Assuming continuation of the current primary property tax rate of $3.4178, projected Fiscal Year 2013/14 base budget revenues and operating transfers to the General Fund total $473,161,846. This is a $13,860,792 or 3 percent increase from the current years' budgeted revenues and operating transfers to the General Fund. Projected base revenues are, however, $7,596,750 or 1.6 percent less than budgeted base revenues three years ago in Fiscal Year 2010/11. In addition, the projected increase in Fiscal Year 2013/14 base revenues is entirely the result of a one-time transfer of $18,500,000 into the General Fund of the monies remaining in the Pima Health System Enterprise Fund after its dissolution. Without this one-time transfer, next year's projected base General Fund revenues would be $4,639,208 or 1 percent less than budgeted revenues in the current year.

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 2013/14 base budget General Government revenues from all other sources is $145,506,004, which is a $9,084,921 or 6.7 percent increase from the current Adopted Budget. Though an increase is projected, General Government revenues other than property taxes will be $18,720,305 or 11.4 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 $5,654,000, or 6 percent, to $99,300,000 reflecting a gradual recovery in the local economy. Vehicle License Tax revenue and Licenses and Permit revenue are also projected to show slight improvements next year with increases of $218,855 and $269,170 respectfully.

2. Primary Property Tax Revenues

The Preliminary Primary Net Assessed value for Fiscal Year 2013/14 totals $7,559,129,097. This is a net $514,808,637 or 6.38 percent decrease from the current year and $1,380,578,163 or 15.44 percent less than three years ago in Fiscal Year 2010/11. Next fiscal year the market value of existing property in the County will decrease by more than 8 percent, however, this will be partially offset by an increase of 1.88 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 2014/15 by more than 2 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 $258,355,914. This is $17,595,130 less than the amount levied in this year's Adopted Budget. Because of the reduction in the value of the property tax base, it would be necessary to increase the rate by 23.28 cents to $3.6506 per $100 of assessed value in order to hold next year's primary levy harmless by generating the same revenues for the General Fund as the previous year.

In addition to this hold harmless rate, 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.

The County would have to further increase the primary property tax rate in order to reach a neutral levy. Pursuant to statute the County's neutral primary rate is $3.7191 or 30.13 cents higher than this year's rate. The resulting revenue neutral primary levy is $22,775,656 or 8.8 percent greater than the levy produced by the current year's rate. 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 Primary Levy Limit imposed by the Arizona Constitution allows the County's primary rate to be increased to $4.7491 or $1.33 higher than the current year's rate. The resulting constitutionally capped levy is $100,634,686 or 39 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 2013/14 are $267,246,048. This amount is $13,664,640 less than the total primary property tax revenues adopted in this year's Budget.

3. <u>Departmental Revenues</u>

Base budget General Fund revenues from departments and operating transfers-in for Fiscal Year 2013/14 are projected to be $60,409,794. This is an $18,440,511 net increase from the current year's Budget.

During the last several years, the County has moved away from a direct healthcare delivery model via its Pima Health System. As part of this transition and to meet any pending claims or other costs, the equity in the system was retained in a special Pima Health System Transition Fund. The County has met its obligations under the transition and is no longer required to maintain this special fund. During Fiscal Year 2013/14 the remaining equity of $18,500,000 within the Pima Health System Transition Fund will be transferred to the General Fund and represents one-time revenues.

Excluding the one-time equity transfer from the Pima Health System Transition Fund, net remaining departmental revenues are essentially flat, decreasing by $59,489 or less than 1 percent. This amount continues to reflect the impacts of the recession on local economic activity and the corresponding stagnant utilization of County services for fees. Departmental revenues and operating transfers-in have decreased by a total of $35,446,488 over the last six 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 $477,165,950, which is $19,825,009 or 4.1 percent more than the current year's base 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 five 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. Even after the mandated and inflationary cost increases experienced by the County over the last five years, General Fund base expenditures are currently less than they were in Fiscal Year 2008/09.

Significant components within recommended base budget expenditures include:

- $255,758,534 or 54 percent of General Fund expenditures for Justice and Law Enforcement functions.

- $67,782,314 for mandated payments to fund state programs for indigent acute, long-term, and mental health.

- $11,653,991 for adult and juvenile detention health care.

- $87,607,225 for General Fund employee benefits including $4,726,048 for the increased employer costs next fiscal year for insurance and 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.

- $4,187,130 for allocation to Outside Agencies, an increase of $298,486 from the current year's Budget that includes $150,000 for Tucson Regional Economic Opportunity, $60,000 for Job Path, $25,000 for Senior Transportation Services and $15,000 for the Santa Cruz Valley Heritage Alliance.

V. Recommended Adjustments to General Fund Base Revenues

As discussed in Section IV above, the projected base revenues of $473,161,846 are $4,004,104 less than are required to fund projected base expenditures of $477,165,950.

During the past five years the County has managed through the challenges of the severe economic downturn that has adversely affected all levels of government. The cumulative annual loss of primary property tax revenues to the General Fund has been $39,367,676 in the last four years as itemized in Table 3 below.

Table 3
Year to Year Reduction in Primary Property Tax Levy
From Fiscal Year 2009/10 to Fiscal Year 2013/14 Base Levy

Fiscal Year	Primary Property Tax Rate	Primary Property Tax Levy	Change in Primary Levy from Prior Year	Cumulative Reduction in Primary Property Tax Levy
2009/10	3.3133	$297,723,590		
2010/11	3.3133	$296,197,333	($1,526,257)	($1,526,257)
2011/12	3.4178	$284,023,289	($12,174,044)	($13,700,301)
2012/13	3.4178	$275,951,044	($8,072,245)	($21,772,546)
2013/14	3.4178	$258,355,914	($17,595,130)	($39,367,676)

Corresponding to these reductions in revenue, the Board of Supervisors implemented a series of across-the-board reductions in departmental budgets. The cumulative reduction to departments during this period was approximately 11.5 percent, except the Sheriff's Office which was reduced 2.5 percent. As a result, General Fund base expenditures are less today than they were five years ago. The workforce, countywide, has been reduced by 1,072 positions, or 12.8 percent, since Fiscal Year 2007/08 as itemized in Table 4 below.

Table 4
Pima County Total Budgeted Full Time Equivalent Positions
Fiscal Year 2007/08 Adopted through Fiscal Year 2013/14 Recommended Budgets

Fiscal Year	Budgeted Full Time Equivalents (FTEs)	Change in Budgeted FTEs	Cumulative Change in Budgeted FTEs
2007/08	8,396		
2008/09	8,113	(283)	(283)
2009/10	7,838	(275)	(558)
2010/11	7,753	(85)	(643)
2011/12	7,361	(392)	(1,035)
2012/13	7,314	(47)	(1,082)
2013/14	7,324	10	(1,072)

As a result of these sustained reductions, General Fund departments have had no resources available to address increased service demands during the recession, reinvest and keep current their programmatic infrastructure for the provision of services, or fund inflationary increases in their operational costs. A substantial majority of services provided by the General Fund are required by law, including Justice and Law Enforcement which accounts for 54 percent of General Fund expenditures. Consequently, very little discretion has existed to discontinue programs or lines of service. In addition to reduced General Fund resources, many departments, particularly in the area of law enforcement, have experienced a steady reduction or elimination of federal and state special revenues and grants that have historically supplemented their core missions.

Therefore, I am not recommending that any further across-the-board reductions be implemented next year. In order to sustain the high quality and level of services the County is providing to our community it will be necessary to increase General Fund base revenues in Fiscal Year 2013/14.

The General Fund base primary property tax levy, using the Fiscal Year 2012/13 rate of \$3.4178 per \$100 of assessed value, is \$258,355,914. Table 5 below sets forth the range of primary levy benchmarks, and corresponding rates, that are applicable under state law to Pima County in Fiscal Year 2013/14.

Table 5
Primary Property Tax Benchmarks for Fiscal Year 2013/14

Benchmark	Levy	Difference	Rate	Difference
Fiscal Year 2013/14 Base Levy	$258,355,914	$ N/A	$3.4178	$ N/A
Hold Harmless Levy:				
Amount Levied in FY 2012/13	275,951,044	17,595,130	3.6506	0.2328
Truth in Taxation Revenue Neutral Levy	281,131,570	22,775,656	3.7191	0.3013
Constitutional Levy Limit (Indexed for Inflation)	358,990,600	100,634,686	4.7491	1.3313

Below are my recommendations for specific increases in the primary property tax levy for Fiscal Year 2013/14.

A. General Fund Base Revenue Deficit

As discussed above, projected General Fund Base Revenues are $4,004,104 less than are required to fund General Fund Base Expenditures. I recommend that the primary levy be increased by this amount, or 5.5 cents, to fund this deficit.

B. Employee Cost of Living Adjustment

I recommended in Section III(B)(3) above that employees receive a one-time compensation award in recognition of the consumer inflation of more than 10 percent that has occurred since the last across-the-board compensation adjustment was implemented six years ago. In addition, it is necessary to begin addressing employee cost of living issues going forward on an annual basis in order for the County to remain competitive and retain a qualified workforce.

I recommend that with the pay period beginning on June 30, 2013 an across-the-board cost of living adjustment of 1 percent be awarded to all eligible employees and that with the pay period beginning on December 29, 2013 an additional 2 percent cost-of-living adjustment be awarded to all eligible employees.

The countywide cost of these adjustments is $6,610,336 and the cost to the General Fund is $4,505,480. The increase in the primary property tax rate necessary to fund these adjustments is 6.19 cents per $100 of assessed value.

C. Road Repair

Special revenues to fund the County Department of Transportation are projected to decrease next fiscal year for the seventh consecutive year. These revenues, consisting primarily of gas taxes dedicated to local road improvements, are declining for numerous reasons including increased fuel efficiency of vehicles and decreased fuel sales during a weak economy. The primary contributing factor to the decline, however, has been the diversion of these revenues by the State from their intended purpose in order to balance the State's General Fund. Over the last twelve years almost $30,000,000 of Highway User Revenue Fund distributions have been withheld from the County. The cumulative negative effect of these revenue reductions has been the most acute in the County's program to maintain our existing roadways. The necessity of deferring and extending schedules for such maintenance has resulted in a substantially compromised County road system. The system's current condition is a detriment to safety, commerce, and quality of life.

In response to this deficiency the Board of Supervisors, when adopting the current year's Budget, took the unprecedented action of appropriating County General Fund resources for the purpose of road repair in the amount of $10,000,000.

I recommend that this program be continued in Fiscal Year 2013/14 and that $5,000,000 be appropriated from the General Fund to accelerate preservation and rehabilitation of an additional 100 miles or 5.7 percent of paved County roads. The increase in the primary property tax rate necessary to fund these repairs is 6.87 cents per $100 of assessed valuation.

D. Law Enforcement: Maintenance of Effort

During the County's period of declining revenues the Sheriff's Office implemented a 2.5 percent reduction in its operating budget. In addition, during the last five years the Office has received no adjustments to address inflationary increases to numerous costs associated with the variety of services it provides. This is particularly true of the costs inherent in housing inmates at the County jail. Such an adjustment needs to be made to ensure that the capability of the Office to continue to provide a high quality of service to our community is not compromised.

I recommend that the General Fund budget of the Sheriff's Office be increased $2,500,000 or 1.9 percent of their base budget to maintain service levels.

Over the last five years the County Attorney's Office has implemented a series of budget reductions totaling approximately 11.5 percent. During this period the Office has also experienced a gradual reduction in special revenues from a variety of federal and state grant programs that have historically funded discrete categories of prosecution and program services in the community. Beginning in Fiscal Year 2013/14 the cumulative impact of these reductions, together with prior budget reductions and inflationary cost increases, will compromise the ability of the Office to continue to provide an adequate level of law enforcement to our community.

I recommend that an additional $1,500,563 be appropriated to the County Attorney's base budget to supplant the loss of special grant revenues and retain an adequate level of experienced, capable attorneys.

The total additional funding recommended for the Sheriff's Office and County Attorney's Office of $4,000,563 will require an increase in the primary property tax rate of 5.49 cents per $100 of assessed valuation.

E. Summary of Recommended Increases to the Primary Property Tax Levy

Table 6 below summarizes the recommendations made above for increases to Fiscal Year 2013/14 General Fund base revenues.

Table 6
Recommended Increases to the Fiscal Year 2013/14 Primary Property Tax Revenues

	Revenue Required	Total Rate	Difference
Fiscal Year 2013/14 Base Rate	$ N/A	$3.4178	$ N/A
Base Revenue Deficit	4,004,104	3.4728	0.0550
Employee COLA Adjustment	4,505,480	3.5347	0.0619
Road Repair	5,000,000	3.6034	0.0687
Law Enforcement: Maintenance Effort	4,000,563	3.6583	0.0549
Total Increase:	**$17,510,147**		**$ 0.2405**

Table 7 below compares the recommended adjusted primary property tax levy to the benchmarks applicable to the County in Fiscal Year 2013/14.

Table 7
Comparison of Recommended Primary Property Levy to Applicable Benchmarks

	Levy	Difference	Rate	Difference
Fiscal Year 2013/14 Recommended Levy	$276,535,620	$ N/A	$3.6583	$ N/A
Hold Harmless Levy:				
Amount Levied in Fiscal Year 2012/13	275,951,044	(584,576)	3.6506	(0.0077)
Truth in Taxation Revenue Neutral Levy	281,131,570	4,594,561	3.7191	0.0608
Constitutional Levy Limit (Indexed for Inflation)	358,990,600	82,454,980	4.7491	1.0908

VI. The Overall Budget

A. Special Districts and Debt Service

1. County Library District

The Library District is funded by a dedicated secondary property tax and serves the entire County. In Fiscal Year 2013/14 the Pima County Public Library will operate twenty-seven branches as well as online services such as Infoline, Ask a Librarian, Brainfuse homework help, job and career help, full-text magazine and journal articles, and downloadable ebooks, audiobooks, video and music.

The Pima County Public Library enriches lives and builds community through opportunities to learn, know, interact and grow. In September 2012 the Board of Supervisors adopted the Library's Community Impact Plan 2013-2016 that includes three major initiatives: Learn, Create and Connect. The Library provides numerous community services, including tax preparation assistance, voter registration, computer instruction, homework help for students, and special assistance for the unemployed and job seekers. The Pima County Public Library has a collection of nearly 2 million catalogued items, provides 625 computers for public use and welcomes over 5 million visitors each year. The Library 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 District partners with many community organizations to provide educational opportunities to the public. The Library 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 offers tutoring, homework help, language instruction, GED test preparation, book clubs, and many educational programs for children and adults. The Library is a founding partner in the Tucson Festival of Books celebrating reading, authors, and books. These efforts contribute to economic development and the quality of life in Pima County.

In 2012 the Pima County Public Library partnered with the Pima County Health Department to place Public Health Nurses in libraries. This novel intervention serves patrons with significant social and behavioral health challenges, ensures that Public Health services are readily available, and creates safer and more welcoming environments for customers.

The County Library District's secondary property tax base continues to decrease. The District's Secondary Net Assessed Value experienced declines of 5.9 percent in Fiscal Year 2010/11, 9.6 percent in Fiscal Year 2011/12 and 3.9 percent in Fiscal Year 2012/13. The tax base is projected to further decline 6.07 percent in Fiscal Year 2013/14.

The total Fiscal Year 2013/14 Recommended Budget for operating costs, grants and operating transfers-out is $35,394,250 which is a $660,483 increase from the Fiscal Year 2012/13 budgeted amount. The budget includes the first full year of operation of the Oro Valley Library.

The recommended Library District property tax rate for Fiscal Year 2013/14 is $0.3753 per $100 of assessed value which is an increase of $0.0293 over the Fiscal Year 2012/13 rate of $0.3460. This tax rate is projected to provide $28,603,438 in revenues that will be supplemented by a projected $1,520,000 from fines, interest, grants and miscellaneous revenue and $5,270,812 from the Library District fund balance in order to meet the recommended overall budget of $35,394,250.

2. **Debt Service Fund**

The total Recommended Fiscal Year 2013/14 Debt Service Fund budget is $124,043,471, an $11,077,120 increase over 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 dedicated secondary property tax. The recommended General Obligation debt service of $59,425,084, a decrease of $5,495,005 from Fiscal Year

2012/13, will fund existing debt service as well as debt service on a proposed $20,000,000 bond sale expected to occur in the spring of 2014. 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 capital improvement projects this fiscal year, including the downtown court complex; the regional public safety communications system (PCWIN); the Santa Cruz River flood control, erosion control, and linear park; 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 at $0.7800 per $100 of assessed value for Fiscal Year 2013/14.

- <u>Street and Highway Revenue Debt Service</u>

  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 2013/14 of $17,397,363 will fund existing debt service.

- <u>Certificates of Participation Debt Service</u>

  The Certificates of Participation (COPs) debt service includes the COPs issued in prior years and the 2013 COPs being issued in May 2013 to fund sewer projects (repaid with sewer revenues), the Fleet Services building, and Facilities Management improvements. The recommended debt service of $47,221,024 will fund existing debt service, as well as debt service on a proposed $58,000,000 sale to fund the completion of the downtown court complex.

3. **Regional Flood Control District**

The value of the Regional Flood Control District's secondary property tax base continues to decrease. The District's Secondary Net Assessed Value declined 4.0 percent in Fiscal Year 2010/11, 10.1 percent in Fiscal Year 2011/12, 4.65 percent in Fiscal Year 2012/13 and is projected to decline 5.98 percent in Fiscal Year 2013/14. The District has responded to these reductions by closely monitoring and controlling costs and by reducing the amount of funding transferred to its Capital Improvement Program in order to maintain a consistent property tax rate.

The recommended operating budget for the Regional Flood Control District is $12,624,028, which is $1,167,026 higher than the current fiscal year budget. These increased expenditures will fund additional engineering services, and repairs and maintenance costs for existing flood control facilities. Also recommended are operating transfers of $6,267,102 including $6,000,000 to the Capital Projects Fund, $224,643 to the Capital Projects Fund for the District's share of development costs for a new countywide Permits Management System and $42,459 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 $3,627,170 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 $18,415,889 for Fiscal Year 2013/14, which is a decrease of $659,439 from the current fiscal year. This reduction reflects the continuing impact of the decrease in the District's Secondary Net Assessed Value.

4. **Stadium District**

In 1997 Pima County created the Pima County Stadium District and spent $38 million to build Kino Verterans Memorial Stadium as a spring training facility for the Chicago White Sox and the Arizona Diamondbacks Major League Baseball teams. In addition, the Stadium and associated clubhouses and practice fields provided facilities for a number of local sports and tournament activities. Stadium

District operating and maintenance costs were largely paid with baseball training revenue, which exceeded $500,000 per team or over $1 million each spring training season.

In 2000, the Arizona legislature created the Arizona Sports and Tourism Authority, which provided funding to Maricopa County communities to build newer facilities for teams already training in Arizona. In 2008 and 2010, the White Sox and Diamondbacks terminated their agreements with the District and moved to newer, larger facilities in Maricopa County. The departures left the Stadium District without the revenue required to maintain fields and facilities. The Board of Supervisors directed the District to aggressively seek ways to diversify use of and increase revenue from the utilization of Stadium facilities.

Since 2008, the District has taken the following steps to repurpose and diversify the use of the Stadium and to decrease costs and increase revenues:

- Activated the Pima County Sports and Tourism Authority to potentially attract new major league baseball spring training teams and promote additional sports activities in Pima County.
- Updated event fees to fully cover the direct cost and partially offset the indirect cost of each event.
- Terminated the Sports Service concession agreement, which provided revenue from Major League Baseball training but not from other activities.
- Marketed the facilities for increased amateur tournament use during spring training season and for new tournament and training use in non-spring seasons.
- Negotiated an advanced marketing agreement with Metropolitan Convention and Visitors Bureau.
- Provided special "economic development" rates designed to attract concerts and other one day, high revenue and high economic impact events.
- Re-negotiated gem show agreements to add services and increase rental rates including limited sharing of gem show sales revenue.
- Transferred operation of Kino Community Center to the YMCA of southern Arizona to reduce costs and expand services.

- Developed staff expertise to quickly convert Stadium and practice fields to and from non-baseball sporting events, including football, rugby and soccer.

- Collaborated with FC Tucson Soccer to attract Major League Soccer teams to train and play friendlies and tournament games on converted fields at Kino Stadium.

- Commissioned a regional sports utilization and facility planning study, which will include recommendations on how to repurpose the Stadium for multi-sport use.

- Allocated a portion of the White Sox termination payment to begin repurposing the overall stadium complex by permanently converting the five north fields, adding one new field and constructing a 2,000 seat, lighted stadium with associated entry, concession and public facility areas. The converted fields and small stadium will be marketed for all field sports including soccer, football, lacrosse and rugby.

Together these actions have improved the District's operating financial situation. District operating revenue which includes various rental and facilities fees totaled $1,347,223 in Fiscal Year 2011/12, which was $928,523 above the original budgeted revenue, and similar results are projected for the current year. Revenues are still less, however, than the revenue realized at the height of the baseball era.

Funding for the 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 funding from sporting and other events as described above. The ongoing recession continues to severely impact tourist and recreational activities resulting in a 23 percent decline in revenue over the past six years from the hotel/motel, car rental and recreational vehicle taxes.

While fee and rental revenues paid to the District during Fiscal Year 2012/13 continue in a positive direction, overall revenues, including the Car Rental Surcharge, the Recreational Vehicle Space Surcharge, are still insufficient to cover the Stadium's operating, maintenance and debt service costs. In anticipation of this revenue shortfall, a subsidy of up to $1,500,000 was budgeted within the General Fund in the current year. Based on forecasts for the end of Fiscal Year 2012/13, the full subsidy will be approved for the transfer from the General Fund at the end of this fiscal year.

The District's Fiscal 2013/14 recommended budget for operating, maintenance and debt service paid to the General Fund is $8,524,519, an increase of $459,168 over Fiscal Year 2012/13. Of this amount, the District will pay $2,898,443 of debt service relating to the original construction of the Stadium facilities. This debt will be fully repaid in Fiscal Year 2017/18. This recommended increase in expenditures is the result of continued growth in the utilization of the District's various venues as described above. Revenue and operating transfers into the District of $5,752,339 and the remaining fund balance will not cover the entire recommended budget amount. Therefore, as discussed in Section III(B)(2) above, I am recommending that the General Fund continue to set aside $1,500,000 to subsidize the Stadium District in Fiscal Year 2013/14.

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

As set forth in Table 8 below, the Fiscal Year 2013/14 recommended Capital Improvement Plan of $311,252,008 consists of the Capital Projects Fund Budget of $182,441,811 and the Capital Projects of Regional Wastewater Reclamation of $113,094,448, Fleet Services of $15,108,849, and Telecommunications of $606,900. A complete list of projects for the Recommended Capital Improvement Plan is included in the Capital Projects section of this Recommended Budget Book.

Table 8
Recommended Fiscal Year 2013/14 Capital Projects Fund Budget and Capital Improvement Plan Budget

Capital Improvement Plan	FY 2012/13 Bond and Non-Bond Project Budgets	FY 2013/14 Bond and Non-Bond Project Budgets	Difference	1997 Bonds	2004/2006 Bonds	Non-Bonds
Capital Projects Fund						
Transportation	$81,049,405	$80,193,296	($856,109)	$11,035,784	-	$69,157,512
Facilities Management	62,352,941	47,024,037	(15,328,904)	96,319	4,094,836	42,832,882
Sheriff's Department	35,649,527	20,583,490	(15,066,037)	-	19,773,776	809,714
Regional Flood Control District	13,843,587	15,183,791	1,340,204	-	4,000,000	11,183,791
Parks and Recreation	9,125,683	5,204,648	(3,921,035)	1,153,711	1,791,580	2,259,357
Open Space	8,035,151	4,748,202	(3,286,949)	-	4,723,275	24,927
Information Technology	6,408,822	3,444,285	(2,964,537)	-	-	3,444,285
Community Development	4,705,938	4,401,065	(304,873)	694,411	3,706,654	-
Environmental Quality	660,000	955,371	295,371	555,371	400,000	-
Office of Sustainability and Conservation	1,332,585	700,546	(632,039)	-	700,546	-
Finance and Risk Management	963,787	-	(963,787)	-	-	-
Total Capital Projects Fund	**$224,127,426**	**$182,438,731***	**($41,688,695)**	**$13,535,596**	**$39,190,667**	**$129,712,468**
Wastewater Reclamation Budget	$237,701,151	$113,094,448	($124,606,703)	-	-	$113,094,448
Fleet Services Budget	18,366,432	15,108,849	(3,257,583)	-	-	15,108,849
Telecommunications Budget	2,456,947	606,900	(1,850,047)	-	-	606,900
Total Capital Improvement Plan	**$482,651,956**	**$311,248,928***	**($171,403,028)**	**$13,535,596**	**$39,190,667**	**$258,522,665**

*Recommended Fiscal Year 2013/14 Capital Projects amount above of $182,438,731 does not include $3,080 of benefit adjustments for Public Works Project Management Office Employees currently included in the Capital Projects department total.

1. **Capital Projects Fund Budget**

The recommended $182,441,811 Capital Projects Fund Budget for Fiscal Year 2013/14 is a decrease of $41,685,615 from the current year's budget of $224,127,426.

Of the total Capital Projects Fund budget, $13,535,596 is funded through 1997 bonds, $39,190,667 is funded through 2004/2006 bonds, and the remaining $129,712,468 is funded through other non-bond sources including Regional Transportation Authority Sales Taxes, Impact Fees, RWRD Obligations, Grants, Certificates of Participation, and General Funds.

The major budgeted projects for Fiscal Year 2013/14 include $34 million for the Downtown Court Complex, funded with $27.7 million from Certificates of Participation, and $6.3 million from General Fund; $20.6 million for the Regional Public Safety Communications System, funded with 2004 General Obligation Bonds; and $14.6 million for the new Fleet Services Facility funded with Certificates of Participation.

The Department of Transportation has four major projects included in the Fiscal Year 2013/14 budget. The Valencia Road: Alvernon Way to Wilmot project is budgeted for $13.1 million and is funded primarily with the Regional Transportation Authority Sales Tax. The Magee Road: La Canada Drive to Oracle Road project is budgeted for $12.9 million and funded with $9 million from a Federal Grant, $3 million in Regional Transportation Authority Sales Taxes and $9 million from bonds. The La Canada Drive: Ina Road to River Road project is budgeted for $9.4 million and is funded with $8.8 million from the Arizona Department of Transportation. The La Cholla Boulevard: Magee Road to Overton Road project is budgeted for $9 million and is funded with Regional Transportation Authority Sales Taxes.

2. **Regional Wastewater Reclamation Capital Budget**

The Fiscal Year 2013/14 recommended capital budget for the Regional Wastewater Reclamation Department (RWRD) is $113,094,448, a decrease of $124,606,703 from Fiscal Year 2012/13. The Fiscal Year 2013/14 Capital Program is planned to be funded entirely with RWRD obligations. Multiple projects in the Regional Optimization Master Plan total $31 million, and the Roger Road Wastewater Treatment Plant Demolition project is budgeted for $14.8 million.

3. **Telecommunications Capital Budget**

The Fiscal Year 2013/14 recommended capital budget for Telecommunications is $606,900, a decrease of $1,850,047 from Fiscal Year 2012/13. All projects will be paid for using the accumulated fund balance in the Telecommunications Internal Service Fund.

4. **Fleet Services Capital Budget**

The Fiscal Year 2013/14 recommended capital budget for Fleet Services totals $15,108,849. This is a decrease of $3,257,583 from Fiscal Year 2012/13. The recommended budget includes $14,561,846 for the new Fleet Services Facility that will be funded through Certificates of Participation.

C. **Combined Total County Budget**

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

The combined primary and secondary property taxes levied by the County fund 30 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.

As discussed in Section V above, it is recommended that the County's primary property tax rate which supports the County's General Fund be increased 24.05 cents to $3.6583 per $100 of assessed value. Pursuant to State Truth in Taxation Statutes, the levy produced by this tax rate will be below the revenue neutral levy. The County would have to further increase the primary property tax rate by more than 6 cents in order to reach the revenue neutral levy of $3.7191 per $100 of assessed value.

The County controls three secondary property tax rates and their associated levies: Library District, Debt Service and Regional Flood Control District. The recommended property tax rates for Debt Service and the Regional Flood Control District are unchanged from Fiscal Year 2012/13 and will result in lower levies. The Library District tax rate will increase by $0.0293 from the Fiscal Year 2012/13 rate to $0.3753 per $100 of assessed value. This increase in the property tax rate is forecasted to produce the equivalent tax revenue as that budgeted in Fiscal Year 2012/13 plus additional revenue produced by a small amount of new construction added to the tax base.

The result of these recommendations is a combined County property tax rate of $5.0771 per $100 of assessed value, a $0.2698 increase over the Fiscal Year 2012/13 tax rates. The recommended Fiscal Year 2013/14 primary and secondary County tax rates are summarized in Table 9 below.

Table 9
Combined County Property Tax Rates

	FY 2012/13 Adopted Rates	FY 2013/14 Recommended Rates	Difference
Primary	$3.4178	$3.6583	$0.2405
Library District	0.3460	0.3753	0.0293
Debt Service	0.7800	0.7800	0.0000
Flood Control District	0.2635	0.2635	0.0000
TOTAL	**$4.8073**	**$5.0771**	**$0.2698**

For only the fourth time in the last 20 years the value of the County's property tax base will decrease next fiscal year. Consequently, the rates recommended above will be applied to a primary tax base that is 6.38 percent less than the current year's base and a secondary tax base that is 6.07 percent less. The result is that the recommended combined County property tax levy will decrease by $4,298,010 or 1.11 percent from the current year levy as set forth in Table 10 below.

Table 10
Combined County Property Tax Levy

	FY 2012/13 Adopted Levies	FY 2013/14 Recommended Levies	Difference
Primary	$275,951,044	$276,535,620	$584,576
Library District	28,081,413	28,611,713	530,300
Debt Service	63,735,453	59,464,792	(4,270,661)
Flood Control District	19,089,598	17,947,373	(1,142,225)
TOTAL	**$386,857,508**	**$382,559,498**	**($4,298,010)**

2. **Combined County Budget**

The combined Recommended County Budget, reflected in the budget schedules and departmental budget summaries following this memorandum, is $1,266,155,617. This is a $32,659,176 or 2.65 percent increase from the Fiscal Year 2012/13 Adopted Budget, but a decrease of $216,558,879 or 14.61 percent, from six years ago.

Specific significant decreases in the overall County Budget include:

- $41,685,615 reduction in Capital Projects Fund expenditures as discussed in Section VI(B)(1) above.

- $3,059,007 reduction in one-time primary and general election related costs.

- Reversal of a one-time transfer of $1,000,000 from the General Fund to the County's new Radio System Fund. This funding covered a portion of the first transitional year's operating and maintenance costs associated with the Pima County Wireless Integrated Network.

Offsetting these decreases are the following increases:

- $50,626,930 of increased expenditures in the Regional Wastewater Reclamation Department. The majority of this increase is associated with accounting adjustments required as the result of the decommissioning of the Randolph Park Wastewater Facility. Most of the adjustments for the closure are non-cash related expenses and include $14,286,053 in depreciation expense and a one-time write-down of the asset totaling $29,456,106. The remaining increases are related to higher operational and debt service related costs.

- $11,077,120 increase in the Debt Service Fund as discussed in Section VI(A)(2) above.

- $6,825,084 increase in employee benefits costs for all County Funds.

- $6,610,336 for an ongoing one percent employee cost of living salary adjustment for all eligible County employees effective with the pay period beginning on June 30, 2013 and an additional ongoing two percent employee cost of living salary adjustment for all eligible County employees effective with the pay period beginning on December 29, 2013.

- $5,317,800 for a one-time, lump sum employee compensation adjustment based on the number of years an eligible employee has been employed with the County and not received an adjustment to address inflation.

- $2,500,000 base budget adjustment for the Sheriff in order to maintain service levels.

- $1,550,563 base adjustment for the County Attorney to supplant the loss of grant revenues and retain an adequate level of experienced, capable attorneys.

- $1,323,762 annualization of a base adjustment approved by the Board in mid-Fiscal Year 2012/13 for the Natural Resources, Parks and Recreation Department to cover operating and maintenance costs associated with new facilities and increased utility costs.

- $1,167,026 increase in Regional Flood Control District expenditures reflecting increased engineering services, and repairs and maintenance costs for new and existing flood control facilities.

- $1,002,590 increase in the General Fund support to the Pima Animal Care Center. The majority of this increase represents the annualized costs of the mid-year budget adjustment approved by the Board in December 2012.

CHH/dr