MEMORANDUM

Date: February 5, 2014

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

From: C.H. Huckelberry
County Administrator

Re: **Pima County Debt**

I previously transmitted to you the present position of the County debt ranging from General Obligation bonds to leased purchases. In the past, the County has been subject to political criticism with regard to the amount of debt held by the County.

This criticism is opportunistic and ill-founded from a number of perspectives. First, most of our debt has been authorized by the voters, unlike the debt of other municipalities or cities and towns, where most of their debt has not been authorized by the voters; it was decided upon by a majority vote of their mayor and council. This is a large and significant difference ignored by the critics of Pima County debt.

Secondly, a considerable amount of our debt, 50 percent, is related to operating a wastewater system. Pima County is the only county in Arizona to operate a regional system to the benefit of all, including every city and town, except for a small portion of Marana and a small portion of Sahuarita. Based on the number of connections, Pima County's regional wastewater system service population is nearly 73 percent of the regional population. The County did have a choice about whether we would incur this debt in bringing the wastewater system up to current environmental and regulatory standards. We could have not done so and not incurred the debt. However, our system would have been taken over by the US Environmental Protection Agency through the Arizona Department of Environmental Quality. We would now be in sewer or growth moratoriums and subject to significant criminal and civil fines imposed by federal and state governments. This was not the path we chose. We chose to develop and improve the wastewater system through the Regional Optimization Management Program (ROMP), which is now being delivered ahead of time and significantly under budget. Upon completion, ROMP will provide enough sewer capacity to add another 16,200 residential units without further investments.

Third, our debt on a per capita basis remains low, and time after time, such has been confirmed by debt rating agencies such as Fitch and Standard and Poor's. A significant strength in our bond ratings is that our debt is relatively short. 90 percent of our debt is repaid within 10 years and all of it is repaid within 15 years. Our debt has and will continue to be well managed.

Based on the positive management of our debt, the County, through the Pima County Bond Advisory Committee, and the public can consider future capital improvement investments necessary to maintain and improve the quality of life of every citizen, resident and taxpayer in Pima County.

For comparison purposes, I am enclosing a recent article that appeared in Inside Tucson Business for your information.

CHH/dr

Attachment

c: Chair and Members, Pima County Bond Advisory Committee

When comparing Arizona county debt, be sure to use similar apples

By Emil Franzi For Inside Tucson Business | Posted: Thursday, January 16, 2014 3:31 pm

The 2012 election for Pima County offices revolved around spending and debt. Many candidates joined local talk show hosts and some GOP types in bemoaning the fact that Pima County's total debt exceeded that of all other 14 county governments combined and was proof of waste and probably worse.

The first problem with this cursory comparison is it far transcends the apple vs orange cliché and is closer to comparing a pomegranate to a basketball.

Maricopa County has minimal debt as most governmental functions there have been absorbed by incorporated cities. About 95 percent of those living in Maricopa County live in a municipality while only 64 percent of Pima County does. It is a more meaningful index to compare per capita debt.

As of June, Pima County's outstanding debt is $1,361.99 per capita while Maricopa's is $28.05. Stopping there is a total distortion.

The per capita debt accumulated by all of the cities and towns need to be given and are then added to the ultimate obligation we as citizens have depending upon which part of a particular county we live in. Maricopa's principal cities range as follows:
Phoenix $6.8 billion ($4,644 per capita)
Mesa $1.6 billion ($3,691)
Scottsdale $1.2 billion ($5,622)
Glendale $1 billion ($4,354)
Tempe $651 million ($3,954)
Chandler $483 million ($2,003)
Gilbert $434 million ($1,977)
Peoria $346 million ($2,198)
Goodyear $268 million ($3,888)

Compare those numbers to Pima County's incorporated towns:
Tucson $1.1 billion ($2,089)
Marana $ 78 million ($2,119)
Oro Valley $50 million ($1,213)
Sahuarita $ 43 million ($1,659)
South Tucson $7.8 million ($1,370)

Throw in school and special districts and Maricopa County owes $17.9 billion with $4,605 per capita while Pima owes $3.6 billion with $3,659 per capita.

Debt itself is not necessarily bad. Proponents of government debt cite the comparison to private mortgages or education loans which can be economically beneficial. They also can be compared to living off maxed out credit cards. Like the private citizens from which they spring, they too often show poor financial judgment.

A fair comparison notes that Pima County debt is almost entirely supported by a secondary property tax voted on by the electorate while much of the municipal debt was determined by city councils with no voter input, a perk given to incorporated cities.

Much is said about the need to either incorporate or annex more of the third of Pima County residents who now live in an unincorporated area and thereby bring in $70 million a year in state money. That argument falls flat. That $70 million is chump change in a county pushing $4 billion in total debt accrued by existing governments. Proponents need to recognize that this aid exists in the first place to cover the needs and desires of new towns which then have more things they're allowed to spend on.

Those who have blindly condemned the current Pima County debt should turn their attention to the municipalities, many containing GOP majorities on their councils.

If you live in unincorporated Pima County, your share of local government debt (minus schools and special districts) is $1,361.99, most voter approved with a given method of payback.

If you live in Marana, you owe that plus $2,119, incurred by local pols with no voter approval for stuff including a sprawling group of government buildings and a sewer system with few connections and no real payback plan in place.

Perhaps if debt is so important an issue, the best way to reduce incurring more should be to end all annexations and new incorporations, and establish a real method for disincorporation.

That is, if we really care about being in hock.

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