MEMORANDUM

Date: April 28, 2014

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

From: C.H. Huckelberry
County Administrator

Re: **Transmittal of Recommended Fiscal Year 2014/15 Budget**

Introduction

This memorandum is to transmit the Recommended Fiscal Year 2014/15 Budget for Pima County. These recommendations are made based on information available in mid-April 2014. 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 20, 2014	Budget Hearing
May 20, 2014	Tentative Budget Adoption (Sets Budget Ceiling)
June 17, 2014	Final Budget Adoption
August 18, 2014	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 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 six 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 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 $3.6665 is recommended to be increased 27.87 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 $22 million over five years. The recommended increase in the primary rate will produce $20,232,663 more in revenue than the current year's levy, but $77.2 million less than the Constitutional Levy Limit which is indexed for inflation. The additional revenues from the increased rate are recommended to maintain current service levels by increasing revenues to match existing base General Fund expenditures.

In addition, nine decision packages have been recommended for consideration by the Board of Supervisors for potential additional funding. Primarily they reflect the need to make substantial adjustments to a variety of County service areas that have absorbed numerous across-the-board budget reductions and received little or no supplemental funding during the last six years since the Recession began.

It is recommended that the combined secondary property tax rates be increased by a net 2 cents. The Library District and Flood Control District rates are recommended to increase by 6 cents and 4 cents respectively to address increases in operational costs during the last five years of declining revenues. The Debt Service rate is recommended to be decreased by 8 cents to partially offset a necessary increase in the primary property tax rate.

Combined with the recommended increase of 27.87 cents in the primary rate, the combined recommended County property tax rate is $5.3840 or 29.87 cents more than the current year. The combined County property tax levy is $403,337,564 or $20,395,101 more than the current year. In addition, the nine decision packages recommended for consideration by the Board of Supervisors would, if approved in their entirety, add 33.27 cents to the combined County property tax rate and $25,013,330 to the combined levy.

The recommended combined total County Budget for Fiscal Year 2014/15 is $1,173,705,438 which is a $93,194,179 or 7.36 percent decrease from the current year's Adopted Budget.

II. Summary of Key Budget Issues

- The projected General Fund available ending balance for Fiscal Year 2013/14 is $32,474,480, an increase of $9,674,437 over the budgeted General Fund Reserve of $22,800,043.

- It is recommended that the non-recurring Fiscal Year 2013/14 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.

  - $17,474,480 as the General Fund Reserve for Fiscal Year 2014/15 which is 3.6 percent of General Fund revenues.

- Assuming continuation of the current primary property tax rate of 3.6665, General Fund base revenues and transfers-in for Fiscal Year 2014/15 are projected to be $485,426,480 which is $5,889,144 or 1.2 percent less than the current year.

- Excluding primary property taxes, General Government revenues from all other sources are projected to increase $14,935,463 or 10.3 percent.

- The value of the net primary property tax base is projected to decrease 0.54 percent which will result in a decrease in the primary levy of $1,490,326 at the current rate.

- Total primary property tax revenues from all sources are projected to decrease $4,156,237.

- General Fund base expenditures and transfers-out for Fiscal Year 2014/15 are projected to be $505,659,143 which is $29,713,094 or 5.5 percent less than the current year's.

- General Fund base expenditures exceed base revenues by $20,232,663.

- It is recommended that the primary property tax rate be increased by 27.87 cents to a total rate of $3.9452 to fund the deficit in General Fund base revenues to base expenditures.

- Nine Decision Packages have been recommended for consideration by the Board of Supervisors of which eight would increase the primary property tax levy and rate above those of the Recommended Budget:

  - <u>Sheriff</u>: $2,581,407 to address numerous deficiencies in the Sheriff's Office.

  - <u>Indigent Defense</u>: $1,800,000 to adjust the budget for contract indigent defense attorneys to reflect the historical trend of actual expenditures for this service.

  - <u>Stadium District</u>: $2,177,931 to afford base General Fund support to the District until the Stadium is paid off in Fiscal Year 2017/18.

  - <u>Information Technology</u>: $6,073,113 to fund one-time capital and ongoing maintenance costs necessary to keep the existing system functioning adequately and reliably as it experiences rapid increases in utilization.

  - <u>Facilities Maintenance</u>: $1,273,874 to fund utilities and maintenance for the newly constructed Public Service Center for one-half year and the newly acquired Apache Park Warehouse for a full year.

  - <u>Wildcat Dump Enforcement</u>: $245,515 to fund continuation of this enforcement program to mitigate the safety and environmental hazards of illegal dumping which has previously been funded by the Solid Waste Special Revenue Fund.

  - <u>Road Repair</u>: $5,000,000 to continue for a third year a General Fund subsidy to supplement special revenues received and dedicated to road construction and maintenance.

  - <u>Employee Compensation</u>: $6,044,876 countywide including a $4,140,360 cost to the General Fund, all of which is recommended to be absorbed by departments, to award all eligible employees a cost of living increase of 2 percent or $750, whichever is greater.

- The recommended budget for the Library District is $37,772,853, a $2,467,853 increase from the current year, and the tax rate is recommended to increase 6 cents to $0.4353.

- The recommended budget for Debt Service is $114,953,822, a $9,089,649 decrease from the current year, and the tax rate is recommended to decrease 8 cents to $0.7000.

- The recommended operating budget for the Regional Flood Control District is $17,096,728, an increase of $4,472,700 from the current year, and the tax rate is recommended to increase 4 cents to $0.3035.

- The combined, total recommended County property tax rate is $5.3840, a 29.87 cent increase from the current year and the resulting combined County levy is $403,337,564, a $20,395,101 increase from the current year.

- If approved in their entirety, the nine decision packages recommended for consideration by the Board of Supervisors would add 33.27 cents to the combined County property tax rate and $25,013,330 to the combined County levy.

- The combined, total Recommended County Budget for Fiscal Year 2014/15 is $1,173,705,438 which is $93,194,179 or 7.36 percent less than the current year.

III. General Fund Ending Fund Balance: Fiscal Year 2013/14

A. Positive Ending Fund Balance

The projected General Fund available ending balance for Fiscal Year 2013/14 is $32,474,480. This is the projected increase of $9,674,437 over the budgeted General Fund Reserve of $22,800,043. This ending balance represents 6.6 percent of projected revenues for Fiscal Year 2013/14 compared to the target ending fund balance of 4.6 percent.

This net increase of $9,674,437 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 over $12.6 million greater than was anticipated at the time the Fiscal Year 2013/14 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. Partially offsetting these increases were significant overspending in the Sheriff's Office, Indigent Criminal Defense and Natural Resources, Parks and Recreation totaling over $8.1 million.

B. Recommended Uses of General Fund Ending Balance

Set forth below are my recommendations for use of the $32,474,480 of non-recurring, one-time resources projected as the available ending balance of the General Fund on June 30, 2014.

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. 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 at $15,000,000 in consideration for a variety of services being provided at the South Campus complex that will benefit the County and health of its residents. A third two year contract effective July 1, 2014 has been negotiated and approved by the University of Arizona Health Network and will come before the Board of Supervisors for final approval before the end of the current fiscal year.

To ensure the optimal utilization of taxpayer's 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 is provided below.

From Fiscal Year 2004/05 through Fiscal Year 2012/13:

- Adjusted Patient Days has increased 119 percent.
- Average Daily Census has increased 75 percent.
- Emergency Department Visits have increased 38 percent.
- Physician Clinic Visits have increased 233 percent.
- Surgical Procedures have increased 406 percent.
- The number of residents in training at UAMC-SC has grown 547 percent in program placement.
- Since Fiscal Year 2004/05, $208.1 million in new federal funds for the UAHN hospital system has been generated using County monies for local match initiatives such as Graduate Medical Education (GME), Disproportionate Share Hospital (DSH) and Safety Net Care Pool (SNCP).
- Overall profitability has improved as a result of these new federal funds, secured through local match, which total $85.1 million since 2008.

At this point in time, the year-to-date average daily census is 6.65 percent higher in Fiscal Year 2013/14 than for the same time period in Fiscal Year 2012/13, showing a continuation of these trends.

I recommend that the $15,000,000 of funding currently provided for in the County's agreement with the Arizona Board of Regents be continued for Fiscal Year 2014/15.

2. **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 restored.

The Government Finance Officers Association recommends, as a minimum benchmark, that 5 percent of operating revenues be set aside as fund balance. For the past seven years the Board of Supervisors has been able to achieve or exceed a 5 percent reserve within the adopted Budget.

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 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, 6.38 percent in Fiscal Year 2013/14 and another 0.54 percent next fiscal year. It is anticipated that the real estate market and construction industry in the County will take several more 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 an adequate level has become an important goal.

After the appropriation recommended above to fund the County's agreement regarding University of Arizona Medical Center – South Campus, the amount remaining of the projected Fiscal Year 2013/14 General Fund ending balance is $17,474,480, or 3.6 percent of General Fund base operating revenues which I recommend be allocated to the General Fund Reserve. While this is less than the County's preferred benchmark of 5 percent, the current cumulative needs of the General Fund, after weathering seven years of economic recession, necessitate drawing upon our reserve in a limited amount.

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 2013/14 available ending fund balance of $32,474,480.

Table 1
Recommended Allocation of Fiscal Year 2013/14
General Fund Ending Balance

Recommendation		Amount
U of A Medical Center – South Campus		$15,000,000
General Fund Reserve		17,474,480
	TOTAL	**$32,474,480**

IV. General Fund Base Budget: Fiscal Year 2014/15

A. General Fund Base Budget Revenues

Assuming continuation of the current primary property tax rate of $3.6665, projected Fiscal Year 2014/15 base budget revenues and operating transfers to the General Fund total $485,426,480. This is a $5,889,144 or 1.2 percent decrease from the current years' budgeted revenues and operating transfers to the General Fund. The projected net decrease in Fiscal Year 2014/15 base revenues is the result of a one-time transfer in Fiscal Year 2013/14 of $18,500,000 into the General Fund of the monies remaining in the Pima Health System Enterprise Fund after its dissolution.

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 2014/15 base budget General Government revenues from all other sources is $160,441,467, which is a $14,935,463 or 10.3 percent increase from the current Adopted Budget.

The largest revenue stream in this category, state shared sales tax, is projected to increase by $7,340,000 or 7.4 percent, to $106,640,000 reflecting a continued gradual recovery in the local economy. Vehicle License Tax revenue and Licenses and Permit revenue are also projected to show some improvement next year with increases of $768,000 and $191,920 respectively.

2. Primary Property Tax Revenues

The Preliminary Primary Net Assessed value for Fiscal Year 2014/15 totals $7,518,481,988. This is a net $40,647,109 or 0.54 percent decrease from the current year and $1,421,165,272 or 15.9 percent less than four years ago in Fiscal Year 2010/11. Next fiscal year the market value of existing property in the County will decrease by 2.57 percent, however, this will be partially offset by an increase of 2.09 percent as a result of new construction added to the tax base. 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 $3.6665 per $100 of assessed value, the resulting primary levy is $275,665,142. This is $1,490,326 less than the amount levied in this year's Adopted Budget.

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 $3.6665, the total base property tax revenues projected for Fiscal Year 2014/15 are $281,343,958. This amount is $4,156,237 or 1.46 percent less than the total primary property tax revenues adopted in this year's Budget.

Because of the reduction in the total property tax revenues, it would be necessary to increase the rate by 5.73 cents to $3.7238 per $100 of assessed value in order to hold next year's primary property tax revenues 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 $3.7633 or 9.68 cents higher than the current year's rate. The resulting neutral primary levy is $282,943,033 or 2.64 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 $4.9720 or $1.3055 higher than the current year's rate. The resulting constitutionally capped levy is $373,818,925, which is $98,153,783 or 35.61 percent greater than the levy produced by the current rate.

3. Departmental Revenues

Base budget General Fund revenues from departments and operating transfers-in for Fiscal Year 2014/15 are projected to be $43,641,055. This is a $16,668,370 net decrease from the current year's Budget.

During the last several years, the County moved away from a direct healthcare delivery model via its Pima Health System. As part of that 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. At the beginning of Fiscal Year 2013/14 the County had met its obligations under the transition and was 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 was transferred to the General Fund as one-time revenues and are not available in Fiscal Year 2014/15.

Excluding the impact of reversing the one-time equity transfer from the Pima Health System Transition Fund, net remaining departmental revenues increase by $1,831,630. This slight increase 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 $33,614,858 over the last seven 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 $505,659,143, which is $29,713,094 or 5.5 percent less 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 six 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 six years, General Fund base expenditures are currently less than they were in Fiscal Year 2008/09.

Significant components within recommended base budget expenditures include:

- $267,631,802 or 52 percent of General Fund expenditures for Justice and Law Enforcement functions.
- $65,502,534 for mandated payments to fund state programs for indigent acute, long-term, and mental health.
- $12,237,734 for adult and juvenile detention health care.
- $90,955,430 for General Fund employee benefits including medical, dental and life 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.

- $4,209,926 for allocation to Outside Agencies, an increase of $22,746 from the current year's Budget.

Significant additions to General Fund base expenditures for Fiscal Year 2014/15 include:

- $5,330,708 to fund the cost of the 2014 Primary and General Elections.

- $4,297,808 to fund the one-time capital and ongoing maintenance costs to complete implementation next fiscal year of the Automated Data Processing System (ADP) to provide the County with a reliable, accurate and efficient means to process payroll and benefits and enhance time management capabilities.

- $2,349,300 net increase in the cost of employee benefits, including a $1,170,293 increase in mandated contributions to various retirement systems including $834,992 of the total increase on behalf of those employees in the Public Safety Retirement System.

- $2,253,419 to annualize the ongoing cost of the cumulative 3 percent across-the-board employee compensation increases awarded by the Board of Supervisors this fiscal year.

- $631,160 to fund increases to the General Fund support to Health Services and Pima Animal Care approved by the Board of Supervisors.

- $583,743 to fund the increased cost of procuring correctional health services via contract.

V. Recommended Adjustment to General Fund Base Revenues

As discussed in Section IV above, the projected base revenues of $485,426,480 are $20,232,663 less than are required to fund projected base expenditures of $505,659,143.

Also discussed in Section IV above are the various factors that have contributed to this imbalance between General Fund base revenues and expenditures. Projected revenues are a net $5,889,144 less than the current year. As described above, costs have increased for a variety of reasons. These include increases in mandated payments such as retirement contributions, increased employee costs for insurance and annualization of previously awarded cost of living adjustments, increased costs of obtaining services such as correctional healthcare, increased costs incurred during an election year and increased costs required to maintain adequate central services infrastructure.

During the past six 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 $22,058,448 in the last five years as itemized in Table 2 below.

Table 2
Year to Year Reduction in Primary Property Tax Levy
From Fiscal Year 2009/10 to Fiscal Year 2014/15 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	3.6665	$277,155,468	$1,204,424	($20,568,122)
2014/15	3.6665	$275,665,142	($1,490,326)	($22,058,448)

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 six years ago. The workforce, countywide, has been reduced by 1,138 positions, or 13.6 percent since Fiscal Year 2007/08 as itemized in Table 3 below.

Table 3
Pima County Total Budgeted Full Time Equivalent Positions
Fiscal Year 2007/08 Adopted through Fiscal Year 2014/15 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	7,329	15	(1,067)
2014/15	7,258	(71)	(1,138)

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 52 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 2014/15.

The General Fund base primary property tax levy, using the Fiscal Year 2013/14 rate of $3.6665 per $100 of assessed value, is $275,665,142. Table 4 below sets forth the range of primary levy benchmarks, and corresponding rates, that are applicable under state law to Pima County in Fiscal Year 2014/15.

Table 4
Primary Property Tax Benchmarks for Fiscal Year 2014/15

Benchmark	Levy	Difference	Rate	Difference
Fiscal Year 2014/15 Base Levy	$275,665,142	$ N/A	$3.6665	$ N/A
Levy for Same Primary Tax Revenue as FY 2013/14	279,973,232	4,308,090	3.7238	0.0573
Truth in Taxation Neutral Levy	282,943,033	7,277,891	3.7633	0.0968
Constitutional Levy Limit (Indexed for Inflation)	373,818,925	98,153,783	4.9720	1.3055

For the reasons discussed above, I recommend that the $20,232,663 shortfall in revenues required to fund Fiscal Year 2014/15 General Fund Base Expenditures be funded from an increase in the primary property tax rate of 27.87 cents to $3.9452.

VI. Additional Revenue Adjustments Recommended for Consideration by the Board of Supervisors

There are numerous potential increases to General Fund expenditures that did not fall within the budget policies or prior directives of the Board of Supervisors and, therefore, were not included in the adjustments that were made to develop the recommended General Fund Base Budget. Set forth below are decision packages containing the adjustments I recommend that the Board consider. Each package indicates the increase, if approved by the Board, that would be added to the primary property tax levy and rate that I have recommended in Section V above to fund the General Fund Base Budget.

A. Certificates of Participation

Pima County is nearing completion of the construction of the Public Service Center at 240 North Stone Avenue. This building was originally designed as a joint courts complex to house both the Pima County Justice Courts and the City of Tucson Municipal Courts. The City of Tucson was originally going to occupy 54 percent of the space. In 2013, the City of Tucson withdrew from the project causing the County to have to redesign the building to accommodate other uses. This change cost the County $12,520,000 in additional design and construction costs. Additionally, now that the County will occupy 100 percent of the building, the cost associated with completing construction falls entirely to the County. In order to complete construction, Pima County borrowed $52,160,000 through the issuance of Certificates of Participation in February 2014, with debt service for Fiscal Year 2014/15 set at $5,000,782. The annual debt service including principal and interest for the Certificates is an expense within the Debt Service Fund. Because the Certificates cannot be repaid using the secondary property tax levy for debt service, the building was used as collateral for the debt and the repayment must be funded by the General Fund through an operating transfer to the Debt Service Fund.

The total cost of this transfer is $5,000,782 and, if approved, will increase the primary property tax rate by 6.89 cents. This expenditure is a legal obligation of the County and must be paid whether additional General Fund revenues are approved or not. In order to stabilize the debt service and the corresponding property tax rates, however, I am recommending that the secondary property tax rate that supports debt service be reduced by 8 cents. The recommended Debt Service budget is further discussed in Section VIII(A)(2) below.

B. Sheriff

This package addresses four of the five supplemental funding requests made by the Sheriff's Office. Approval would add $270,000 to the overall operating expenses of the Office to address inflation and growth of the inmate population, add three corrections officers to adequately staff inmate transfers when the new justice court opens, provide continuing funding for six positions that have previously been funded by grants that have now expired and $1,768,800 for upgrades and replacements to components of the Information Technology infrastructure in the Office, including 150 new Mobile Data computers.

The total cost of this package is $2,581,407 and, if approved, will increase the primary property tax rate by 3.55 cents.

C. **Indigent Criminal Defense**

The County is constitutionally and statutorily required to provide legal representation to persons accused of a crime and determined by the courts to be indigent. For many years these mandated services have been provided by the offices of the Pima County Public Defender and Legal Defender and, in instances of conflict or excessive caseloads, by use of contract attorneys. During the last six years the cost of indigent defense contract attorneys, which serves as the "escape valve" for increased demand for these services, has significantly exceeded budget. Numerous factors have contributed to this increased demand, but the single most costly increase in demand has occurred in Juvenile Court proceedings relating to dependencies as a result of substantially more cases being processed by the state office of Child Protective Services. The State of Arizona has experienced a similar dramatic increase in the number and cost of such cases.

Approval of this package would adjust the budget for indigent defense contract attorneys to the actual amount that has been and will be expended by the County. The cost of this package is $1,800,000 and, if approved, will increase the primary property tax rate by 2.48 cents.

D. **Stadium District**

The history and financial status of the Stadium District is discussed in Section VII(A)(4) below. The District has received support from the General Fund every year since Major League Baseball terminated use of its facilities for Spring Training and will continue to require such support at least until the debt incurred to build the Stadium is fully retired in Fiscal Year 2017/18.

The cost to add this support to General Fund Base Expenditures is $2,177,931 and, if approved, would increase the primary property tax rate by 3.00 cents.

E. **Information Technology**

Like all entities, public and private, the County has been challenged to convert nearly all of its business practices to incorporate and remain current with available information technology. This conversion not only offers enhanced efficiency, capability and quality of service, but the expectations of the public require it.

The County has made significant capital investments in Information Technology infrastructure over the last ten years. The County has not, however, because of the Recession made significant adjustments to the ongoing base budget of this function to cover the cost to maintain the system, accommodate continuous increases in utilization and remain current. This package will make that adjustment and cover the actual cost of keeping the County's Information Technology System functioning adequately. It includes 17 new positions and software contracts and maintenance for existing programs. The package will also fund one-time capital expenditures necessary to support growth in the storage and computing needs of the County, particularly use by the Sheriff's Office to store high definition media as evidence, address security vulnerabilities and allow automation of auditing functions.

The total cost of this package is $6,073,113 of which $3,365,400 is for one-time capital expenditures. If approved, the primary property tax would increase 8.37 cents next year and 3.67 cents in future years when the one-time expenditures are reversed.

F. **Facilities Maintenance**

The new Public Service Center will open and begin serving the public in Fiscal Year 2014/15. In addition, the County has acquired the Apache Park Warehouse in order to reduce the cost of leased warehouse space to accommodate the storage needs of the Sheriff's Office and the Health Department.

This package will fund the cost of utilities and maintenance of the Public Service Center for one-half of the Fiscal Year and the Apache Park Warehouse for the entire Fiscal Year. Funding includes two new trades maintenance specialist positions.

The cost of this package is $1,273,874 and, if approved, would increase the primary property tax rate by 1.75 cents.

G. **Wildcat Dump Enforcement**

Historically the County's Wildcat Dump Enforcement program has been paid for by the Solid Waste Special Revenue Fund. The County has now transitioned out of the landfill business and revenues do not exist to continue funding the program from the Special Revenue Fund. Continued funding of the program to mitigate the safety and environmental hazards created by illegal dumping will require General Fund support.

The cost of this package, which will maintain the existing program, is $245,515 and, if approved, will increase the primary property tax rate by 0.34 cents.

H. Road Repair

For the last two fiscal years the Board of Supervisors has taken the unprecedented action of appropriating General Fund dollars to supplement special revenues received by the County that are restricted to construction and maintenance of County roads. This was done in recognition of both the substantial need to preserve and rehabilitate existing County roads and the continual decline, for numerous reasons, of special revenues available to do so.

Continuation of this appropriation in the current year's amount will cost $5,000,000 and, if approved, increase the primary property tax rate by 6.89 cents. Programing of roads to be repaired would be subject to Board of Supervisors approval during Fiscal Year 2014/15.

I. Employee Compensation

This package addresses inflationary cost increases borne by our employees. In order to remain competitive in the workforce market, I recommend that the Board of Supervisors consider awarding across-the-board increases to all eligible employees of 2 percent but no less than $750. This will result in 2,265 of the County's total 6,047 employees whose annual salary is approximately $37,500 or less receiving an increase of $750 per year or 36.05 cents per hour. The remaining employees will receive an increase of 2 percent of their current compensation.

If approved, I recommend that the increase become effective with pay period that begins on September 7, 2014. Countywide the cost of this adjustment is $6,044,876 of which the cost to the General Fund is $4,140,360. I recommend that both General Fund and non-general fund departments absorb the cost of this adjustment. Therefore, if approved, the primary property tax levy and rate would not increase.

VII. Summary of Recommended and Potential Increases to General Fund Revenues

Table 5 below summarizes the increases in the primary property tax levy recommended and recommended for consideration by the Board of Supervisors in Sections V and VI above.

Table 5
Recommended and Potential Increases to General Fund Revenues

Recommended Budget	Revenue Increase	Additional Levy to Fund Revenue Increase	Total Cumulative Levy	Rate Increase	Total Cumulative Primary Rate
Fiscal Year 2014/15 Base Levy	N/A	N/A	$275,665,142	N/A	$3.6665
Base Revenue Deficit Adjustment	$20,232,663	$20,953,679	296,618,821	$0.2787	3.9452
Decision Packages					
Certificates of Participation	5,000,782	5,178,991	301,797,812	0.0689	4.0141
Sheriff	2,581,407	2,673,399	304,471,211	0.0355	4.0496
Indigent Defense	1,800,000	1,864,145	306,335,356	0.0248	4.0744
Stadium District	2,177,931	2,255,544	308,590,900	0.0300	4.1044
Information Technology	6,073,113	6,289,536	314,880,436	0.0837	4.1881
Facilities Management	1,273,874	1,319,270	316,199,706	0.0175	4.2056
Wildcat Dump Enforcement	245,515	254,264	316,453,970	0.0034	4.2090
Road Repair	5,000,000	5,178,181	321,632,151	0.0689	4.2779
Employee Compensation	0	0	321,632,151	0.0000	4.2779
TOTAL	**$44,385,285**	**$45,967,009**	**$321,632,151**	**$0.6114**	**$4.2779**

VIII. 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 2014/15 the Pima County Public Library will operate a Main Library, twenty-six branches, a bookmobile, and online services including a dynamic web portal, Infoline, Ask a Librarian, online homework help, employment and career help, full-text magazine and journal articles and downloadable e-books, audiobooks, video and music.

The Library provides numerous community services, including homework help for students of all ages, tax preparation assistance, computer instruction, and special assistance for entrepreneurs, job seekers and the unemployed. The Library has a collection of 1.3 million catalogued items, which will be borrowed over 7 million times in the course of a year. The Library provides 667 computers for public use, welcomes almost 6 million visitors through its doors each year, and nearly half of all Pima County residents hold Pima County Public Library cards. The Library offers an increasing number of digital items to its patrons including e-books and audiobooks as well as downloadable video. Community groups use library meeting facilities to hold meetings of civic and educational interest, and as gathering places where people interact, share information and engage in creating content through 21st Century Skills.

Partnerships initiated by the Library provide educational opportunities, contribute to economic development and increase the quality of life for everyone in Pima County. Partners such as Pima Community College Adult Education, Literacy Connects and Make Way for Books allow for increased literacy services such as GED preparation and English Language Acquisition classes. Collaboration with the Metropolitan Education Commission allows the Library to provide information about financial aid and career exploration to high school students. The Library also partners with Pima County One-Stop, the Arizona State Library Archives and Public Records, and the Arizona Department of Economic Security to provide job help classes and skills training for the unemployed. Additionally, Pima County Public Library is a founding partner and steering committee member of the Tucson Festival of Books.

Since 2012 the Pima County Public Library has partnered with the Pima County Health Department to place public health nurses in libraries. This unique and award winning 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. Currently, there are 16 Public Health Nurses at 18 branch libraries, including five DES Application Assisters. The Library Nurse project has been recognized in Library Journal Online and Public Libraries Magazine as well as Nurse.com Magazine.

The County Library District's secondary property tax base continues to decrease. The District's Secondary Net Assessed Value declined 9.6 percent in Fiscal Year 2011/12, 3.9 percent in Fiscal Year 2012/13, and 6.47 percent in Fiscal Year 2013/14. The tax base is projected to further decline 0.57 percent in Fiscal Year 2014/15.

The Fiscal Year 2014/15 recommended budget for operating costs, grants and operating transfers-out is $37,772,853 which is a $2,467,853 increase from the Fiscal Year 2013/14 budgeted amount of $35,305,000. The recommended budget will fund increased operating expenses for personnel, Information Technology, Facilities Management, Finance and other internal service charges and maintenance costs at expanded libraries.

In order to correct an imbalance of Fiscal Year 2013/14 secondary tax levy revenues and operating expenses, 24 positions were eliminated from the Library District Budget beginning July 1, 2013. They consisted of 8 Library Manager positions and 16 Library Assistants, Clerks, Pages and Drivers. This has placed a significant strain on library operations resulting in reduced availability of programs and services. Outreach services to home bound, senior centers and assisted living communities have been reduced or eliminated altogether. Frequent disruptions to Bookmobile and daily delivery between branch libraries have occurred. Additionally, increased costs for books, ebooks, online research databases and other materials resulted in a 10 percent reduction the number of items purchased in Fiscal Year 2013/14. This has translated into longer wait lists for popular books, DVDs and other items and a service model that is not sustainable.

The recommended Library District property tax rate for Fiscal Year 2014/15 is $0.4353 per $100 of assessed value which is an increase of $0.0600 over the Fiscal Year 2013/14 rate of $0.3753. The increased property tax rate is necessary to fund the recommended budget because the Library District fund balance has been reduced substantially. This is the result of a multi-year plan to reduce the Library District fund balance by deliberately under budgeting tax revenue. The recommended tax rate is projected to provide $32,666,797 in revenues that will be supplemented by a projected $1,815,000 from fines, interest, grants and miscellaneous revenue and $4,351,646 from the Library District fund balance in order to meet the recommended overall budget of $37,772,853. This recommended budget will reduce the Library District fund balance to less than $200,000 or less than one percent of the annual budget.

2. **Debt Service Fund**

The total Recommended Fiscal Year 2014/15 Debt Service Fund budget is $114,953,822, a $9,089,649 decrease 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 $53,124,650, a decrease of $6,300,434 from Fiscal Year 2013/14, will fund existing debt service as well as debt service on a proposed $18,681,000 bond sale expected to occur in the spring of 2015.

  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 manages the issuance of its debt to provide funding as needed to maintain the on-going capital improvement program. The County generally issues debt on an annual basis for General Obligation Bonds in order to time the issuance of debt to minimize the outstanding balances and manage the level of debt service to avoid significant spikes in payments in any year.

The County has several major capital improvement projects next fiscal year, including the completion of the regional public safety communications system (PCWIN); flood control, erosion control, and linear park along the Santa Cruz River; and various park improvement projects.

As discussed in Section VI(A) above, the County was required to issue additional Certificates of Participation (COPs) this year to complete the Public Service Center. The debt service for these COPs must be paid for out of the General Fund. In order to provide for the debt service for that debt in the primary property tax levy rather than in the debt service tax levy, I recommend that the General Obligation Debt Service tax rate decrease 8 cents from $0.7800 per $100 of assessed value to $0.7000 for Fiscal Year 2014/15.

- 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 2014/15 of $18,883,769 will fund existing debt service.

- Certificates of Participation Debt Service

The Certificates of Participation (COPs) debt service of $42,945,403, a decrease of $4,275,621 from Fiscal Year 2013/14, includes the COPs issued in prior years for the acquisition or construction of County facilities such as the Public Service Center, the Bank of America building, the Fleet Services facility, and sewer projects, as well as debt service on a proposed $60,000,000 sale in Fiscal Year 2014/15 to fund additional sewer projects that will be repaid with sewer revenues. Certificates of Participation debt service is paid from funds other than the General Obligation debt service tax levy.

3. Regional Flood Control District

For the first time in five years the value of the Regional Flood Control District's secondary property tax base is forecast to increase slightly. 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 5.98 percent in Fiscal Year 2013/14. The Flood Control tax base is projected to increase 0.59 percent in Fiscal Year 2014/15. The District has responded to past declines 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 various components of the Regional Flood Control District is $17,096,728, which is $4,472,700 more than the current fiscal year budget reflecting increased costs of operations, engineering services, repairs and maintenance to new and existing flood control facilities. This amount also includes $125,962 of grant related expenditures.

The overall Regional Flood Control District Fund's recommended budget also includes $3,000,000 of revenue, $1,050,000 of expenditures and a $950,000 reimbursement to the Regional Flood Control District operating fund for previous real property purchases related to the newly established Canoa Ranch In-Lieu Special Revenue Fund. This fund will be used to design, construct and maintain ecosystem restoration within the Canoa Ranch In-Lieu Fund project site.

Also recommended are operating transfers-out of $10,423,724 including $10,095,839 to the Capital Projects Fund, $189,602 to the Stadium District for operating and maintenance costs of the Kino Environmental Restoration Project, $30,000 funding for the County's Native Plants Nursery, $58,068 of Flood Control Grants match and $50,068 to the Debt Service Fund for the department's share of debt service on Certificates of Participation issued in 2010. This is an increase of $3,732,898 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.

The Regional Flood Control District secondary tax rate has been as high as $0.3746 per $100 of assessed value in Fiscal Years 2005/06 and 2006/07 and as low as $0.2635 per $100 of assessed value today. I recommend that the Regional Flood Control District's Fiscal Year 2014/15 tax rate be increased $0.0400 to $0.3035 per $100 of assessed value in order to meet its existing and growing obligations by providing necessary adjustments to increased operational costs that have been deferred during the past five years of the economic recession and resulting contraction of the District's tax base.

4. Stadium District

In 1997 Pima County created the Pima County Stadium District and spent $38 million to build Kino Veterans 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 (PCSTA) to potentially attract new major league baseball spring training teams and promote additional sports activities in Pima County. In 2010 PCSTA attracted the Tucson Padres and in 2011 two Korean Major League teams to train and play at Kino Stadium. A third Korean team trained at the Stadium in Fiscal Year 2013/14.

- 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.

- Redesigned the Stadium/Kino Sports Complex website to be an effective and interactive marketing tool, including online reservation, social media, and virtual tour of facilities capabilities.

- Negotiated an advanced marketing agreement with Metropolitan Convention and Visitors Bureau that includes developing additional college sports tournaments.

- Established special economic development rates designed to attract concerts and other one day, high revenue and high economic impact events. Five concerts played in the Stadium in Fiscal Year 2013/14.

- Re-negotiated gem show agreements to add services and increase rental rates including sharing of gem show sales revenue. Gem show revenue to the District increased to $192,000 in Fiscal 2013/14.

- Transferred operation of Kino Community Center to the YMCA of southern Arizona to reduce costs and expand services. In Fiscal Year 2013/14 Mulcahy YMCA served 1,500 YMCA members from adjacent communities.

- 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 (MLS) teams to train and play friendlies and tournament games on converted fields at Kino Stadium. Eleven MLS teams, a Mexican Professional League team and a ladies MLS team trained and played at Kino in Fiscal Year 2013/14.

- Commissioned a regional sports utilization and facility planning study, which will include recommendations on how to repurpose the Stadium for multi-sport use. The study emphasizes the economic impact of sporting events and is useful for evaluating sports funding proposals.

- Allocated a portion of the White Sox termination payment to repurpose the north complex: Converted all five north fields, added one new field and constructed a 2,900 seat, lighted stadium with associated entry, concession and public facility areas in FY 2013/14. The converted fields and small stadium are marketed for various field sports including soccer, football, lacrosse and rugby.

- Increased South Complex tournament marketability by adding scoreboards, bleacher shade and an additional concession area.

- Implemented an advertising policy with permanent advertising signage and shared revenue to the Stadium District.

The number and diversity of Stadium events continues to grow. Attendance and participation will exceed 250,000 in FY 2013/14.

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 rental and concession fees from sporting and other events as described above. While fee and rental revenues paid to the District during Fiscal Year 2013/14 continue in a positive direction, the ongoing recession continues to severely impact tourist and recreational activities. This impact resulted in a 23 percent decline in revenue over the past six years from the hotel, car rental and recreational vehicle taxes and these revenues 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 2013/14, the full subsidy will be approved for the transfer from the General Fund at the end of this fiscal year.

The District's recommended budget for operating, maintenance and debt service paid to the General Fund is $8,119,791, a decrease of $404,728 from Fiscal Year 2013/14. Of this amount, the District will pay $2,866,694 of debt service relating to the original construction of the Stadium facilities. This debt will be fully repaid in Fiscal Year 2017/18. There is no debt service for this year's North Stadium construction as all these costs were paid from the White Sox termination payment fund.

The recommended decrease in expenditures is primarily the result of less capital expenditures planned in Fiscal Year 2014/15. Revenue and operating transfers into the District of $6,199,090 and the remaining fund balance will not cover the entire recommended budget amount. Therefore, as discussed in Section VI(D) above, I am recommending consideration of a decision package for the General Fund to continue to subsidize the Stadium District in Fiscal Year 2014/15 by $2,177,931. As stated in my April 1, 2014 memorandum to the Board of Supervisors, if these additional funds are approved they would become a permanent General Fund allocation for the cost of operating and maintaining the Kino Sports Complex, to be reevaluated after the construction debt service is paid off in Fiscal Year 2017/18.

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

As set forth in Table 6 below, the Fiscal Year 2014/15 recommended Capital Improvement Plan of $232,433,483 consists of the Capital Projects Fund Budget of $139,665,480 and the Capital Projects of Regional Wastewater Reclamation of $84,392,158, Fleet Services of $6,823,967 and Telecommunications of $1,551,878. A complete list of projects for the Recommended Capital Improvement Plan is included in the Capital Projects section of this Recommended Budget Book.

Table 6
Recommended Fiscal Year 2014/15 Capital Projects Fund Budget and Capital Improvement Plan Budget

Capital Improvement Plan	FY 2013/14 Bond and Non-Bond Project Budgets	FY 2014/15 Bond and Non-Bond Project Budgets	Difference	1997 Bonds	2004/2006 Bonds	Non-Bonds
Capital Projects Fund						
Transportation	$80,193,296	$62,056,308	($18,136,988)	$8,096,793	$ 41,155	$ 53,918,360
Facilities Management	47,024,037	33,915,787	(13,108,250)	-	220,639	33,695,148
Sheriff's Department	20,583,490	4,561,707	(16,021,783)	-	4,561,707	-
Regional Flood Control District	15,183,791	15,138,247	(45,544)	-	4,872,347	10,265,900
Parks and Recreation	5,204,648	8,867,599	3,662,951	723,926	5,918,524	2,225,149
Open Space	4,748,202	6,304,623	1,556,421	-	5,004,623	1,300,000
Information Technology	3,444,285	4,194,935	750,650	-	-	4,194,935
Community Development	4,401,065	2,621,164	(1,779,901)	-	2,621,164	-
Environmental Quality	955,371	350,000	(605,371)	350,000	-	-
Elections	-	750,000	750,000	-	-	750,000
Office of Sustainability and Conservation	700,546	905,110	204,564	-	905,110	-
Total Capital Projects Fund	**$182,438,731**	**$139,665,480**	**($42,773,251)**	**$9,170,719**	**$24,145,269**	**$106,349,492**
Wastewater Reclamation Budget	$113,094,448	$84,392,158	($28,702,290)	-	-	$84,392,158
Fleet Services Budget	15,108,849	6,823,967	(8,284,882)	-	-	6,823,967
Telecommunications Budget	606,900	1,551,878	944,978	-	-	1,551,878
Total Capital Improvement Plan	**$311,248,928**	**$232,433,483**	**($78,815,445)**	**$9,170,719**	**$24,145,269**	**$199,117,495**

1. Capital Projects Fund Budget

The recommended $139,665,480 Capital Projects Fund Budget for Fiscal Year 2014/15 is a decrease of $42,776,331 from the current year's budget of $182,441,811.

Of the total Capital Projects Fund, $9,170,719 is funded through 1997 bonds, $24,145,269 is funded through 2004/2006 bonds, and the remaining $106,349,492 is funded through other non-bond sources including Regional Transportation Authority (RTA) Sales Taxes, Impact Fees, Grants, Certificates of Participation, and General Funds.

Included in the budget for Fiscal Year 2014/15 is $30 million for the completion of the Public Service Center, funded with $30 million from Certificates of Participation.

The Department of Transportation has budgeted $62 million for 49 projects. The projects include the Valencia Road: Alvernon Way to Wilmot for $14.8 million and Valencia Road: Mark Road to Wade for $11 million. Funding for the Fiscal Year 2014/15 Department of Transportation Capital Program consists of $17.2 million in RTA funding, $17 million in Grants, $8.1 million in HURF Bonds, $7.2 million in State Revenue, $5.6 million in Impact Fees, and $6.9 million from various other funding sources.

Natural Resources, Parks and Recreation has budgeted $8.9 million for 10 projects including the Northside Community Park for $4.1 million funded with 2004 General Obligation bonds.

Open Space is budgeted at $6.3 million for acquisitions which will be funded with $5 million in 2004 General Obligation Bonds, $1 million from Special Revenue Funds, and $300,000 from Grant funds.

2. **Regional Wastewater Reclamation Capital Budget**

The Fiscal Year 2014/15 recommended capital budget for the Regional Wastewater Reclamation Department (RWRD) is $84,392,158, a decrease of $28,702,290 from Fiscal Year 2013/14 which was the final year of the Regional Optimization Master Plan (ROMP) implementation. The Fiscal Year 2014/15 Capital Program is planned to be funded entirely with RWRD Obligations. Four major projects included in the Fiscal Year 2014/15 budget are $10 million for Minor Rehabilitation Projects; $8.8 million for the South Rillito West Central Interceptor Rehabilitation Project; $8 million on the North Rillito Interceptor Rehabilitation Project and $7 million on the Conveyance Rehabilitation Program.

3. **Fleet Services Capital Budget**

The Fiscal Year 2014/15 recommended capital budget for Fleet Services is $6,823,967, a decrease of $8,284,882 from Fiscal Year 2013/14. The recommended budget includes $5.2 million for the new Fleet Services Facility that will be funded through Certificates of Participation.

4. **Telecommunications Capital Budget**

The Fiscal Year 2014/15 recommended capital budget for Telecommunications is $1,551,878, an increase of $944,978 from Fiscal Year 2013/14. There are five projects budgeted for less than $900,000 each that will be paid for using the accumulated fund balance in the Telecommunications Internal Service Fund.

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 34.7 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 27.87 cents to $3.9452 per $100 of assessed value. Pursuant to State Truth in Taxation Statutes, the levy produced by this tax rate will be over the neutral levy and a Truth in Taxation hearing will be required to be noticed and held at the same time as the final budget adoption. The County's neutral levy is $3.7633 per $100 of assessed value.

The County controls three secondary property tax rates and their associated levies: Library District, Regional Flood Control District and Debt Service. The Library District tax rate will increase by $0.0600 from the Fiscal Year 2013/14 rate to $0.4353 per $100 of assessed value. The property tax rate for the Regional Flood Control District will increase by $0.0400 from Fiscal Year 2013/14 rate to $0.3035 per $100 of assessed value. Offsetting the increase to the primary rate caused by the repayment of the Certificates of Participation issued to complete construction of the Public Service Center, the property tax rate for Debt Service will be reduced by $0.0800 from the Fiscal Year 2013/14 rate to $0.7000 and will result in a lower levy. The net of these changes in the secondary property tax rates will produce $923,457 of additional revenue in Fiscal Year 2014/15.

The result of these recommendations is a combined County property tax rate of $5.3840 per $100 of assessed value, a $0.2987 increase over the Fiscal Year 2013/14 tax rates. The Fiscal Year 2014/15 recommended primary and secondary County tax rates are summarized in Table 7 below.

Table 7
Combined Recommended County Property Tax Rate

	FY 2013/14 Adopted Rates	FY 2014/15 Recommended Rates	Difference
Primary	$3.6665	$3.9452	$0.2787
Library District	0.3753	0.4353	0.0600
Debt Service	0.7800	0.7000	(0.0800)
Flood Control District	0.2635	0.3035	0.0400
TOTAL	**$5.0853**	**$5.3840**	**$0.2987**

In addition to the Combined Recommended Budget, nine decision packages have been recommended in Section VI above for consideration by the Board of Supervisors. Table 8 below sets forth the increases to the Recommended Primary and Combined County property tax rate if any of these items are approved for funding.

Table 8
Potential Increases to
Combined Recommended Property Tax Rate

	Cumulative Combined Rate	Addition to Primary Rate
Combined Recommended Tax Rate	$5.3840	N/A
Decision Packages		
Certificates of Participation	$5.4529	$0.0689
Sheriff	5.4884	0.0355
Indigent Defense	5.5132	0.0248
Stadium District	5.5432	0.0300
Information Technology	5.6269	0.0837
Facilities Management	5.6444	0.0175
Wildcat Dump Enforcement	5.6478	0.0034
Road Repair	5.7167	0.0689
Employee Compensation	5.7167	0.000
TOTAL	**$5.7167**	**$0.3327**

For the fifth consecutive year the value of the County's overall property tax base will decrease next fiscal year. Consequently, the rates recommended above will be applied to a primary tax base that is 0.54 percent less than the current year's base and to secondary tax bases that range from a decrease of 0.57 percent to an increase of 0.59 percent. This net reduction in the tax base combined with the net changes in the primary and secondary property tax rates result in the recommended combined County property tax levy increasing by $20,395,101, or 5.3 percent more than the current year levy as set forth in Table 9 below.

Table 9
Combined Recommended County Property Tax Levy

	FY 2013/14 Adopted Levies	FY 2014/15 Recommended Levies	Difference
Primary	$277,155,468	$296,619,151	$19,463,683
Library District	28,487,320	32,995,300	4,507,980
Debt Service	59,464,792	53,059,292	(6,405,500)
Flood Control District	17,834,883	20,663,821	2,828,938
TOTAL	**$382,942,463**	**$403,337,564**	**$20,395,101**

Table 10 below sets forth the increases to the Recommended Primary and Combined County property tax levy if any of the nine decision packages are approved for funding.

Table 10
Potential Increases to Combined Recommended Property Tax Levy

	Cumulative Combined Levy	Addition to Primary Levy
Combined Recommended Levy	$403,337,564	N/A
Decision Packages		
Certificates of Participation	$408,516,555	$5,178,991
Sheriff	411,189,954	2,673,399
Indigent Defense	413,054,099	1,864,145
Stadium District	415,309,643	2,255,544
Information Technology	421,599,179	6,289,536
Facilities Management	422,918,449	1,319,270

Wildcat Dump Enforcement		423,172,713	254,264
Road Repair		428,350,894	5,178,181
Employee Compensation		428,350,894	0
	TOTAL	**$428,350,894**	**$25,013,330**

2. **Combined County Budget**

The combined Recommended County Budget, reflected in the budget schedules and departmental budget summaries following this memorandum, is $1,173,705,438. This is a $93,194,179 or a 7.36 percent decrease from the Fiscal Year 2013/14 Adopted Budget of $1,266,899,617. This total Recommended County Budget amount does not include increases to revenues and expenditures that would occur if the Board of Supervisors approves any of the Decision Packages discussed in Section VI above.

Specific significant decreases in the overall County Budget include:

- $53,983,992 reduction in costs in the Regional Wastewater Reclamation Department. $38,958,226 of this decrease is associated with changes in the process for accounting for the cost of retirement of debt principle. An additional reduction of $29,456,106 represents the reversal of budgeted accounting adjustments for the decommissioning of wastewater facilities in Fiscal Year 2013/14. These decreases are partially offset by higher operational, utility and other costs.

- $42,776,331 reduction in Capital Projects Fund expenditures as discussed in Section VII(B) above.

- $9,089,649 decrease in overall County Debt Service Fund costs as discussed in Section VII(A)(2) above.

- $5,325,563 decrease in the General Fund's budgeted reserve as discussed in Section III(B)(2) above.

- $5,000,000 reduction in the one-time General Fund supplemental road repair appropriation. Potential continuation of this funding is included as a Board of Supervisors' decision package as discussed in Section V(H) above.

- $4,991,076 reduction in grant expenditures due to ongoing reductions in federal and state grant funding.

- $4,450,332 reduction in County Solid Waste Management costs resulting from the transition from a direct services model for providing solid waste services to contracting with a private company.

Partially offsetting these decreases are the following increases:

- $5,330,708 increase in one-time primary and general election related costs.

- $4,297,808 to fund the one-time capital and ongoing maintenance costs to complete implementation of the Automated Data Processing System (ADP).

- $4,472,700 increase in Regional Flood Control District operational expenditures reflecting increased engineering services and repairs and maintenance costs for new and existing flood control facilities as discussed in Section VII(A)(3).

- $3,278,568 increase in overall net benefits costs in all County Funds.

- $2,467,853 increase in Pima County Library System costs as discussed in Section VII(A)(1).

CHH/dr