



MEMORANDUM

Date: May 16, 2016

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

From: C.H. Huckelberry
County Administrator

A handwritten signature in black ink, appearing to be "C.H. Huckelberry", is written over the printed name of the County Administrator.

Re: **Fiscal Year 2016/17 State Budget and Legislative Update**

The State Legislature passed and the Governor has signed into law the State budget for Fiscal Year 2016/17, and the Legislature has ended the current session. A number of bills were vetoed by the Governor, and others await his signature. This memorandum updates the Board of Supervisors regarding the Adopted State Budget and how it may affect the County's budget, as well as other noteworthy activities related to session laws approved or those that failed to receive House and Senate approval.

The State budget impacts are summarized in the attached May 4, 2016 County Supervisors Association (CSA) report and the CSA's May 10, 2016 spreadsheet. The last column of the spreadsheet shows the total fiscal impact of State cost shifts to counties. The amount shifted to Pima County is 16.5 percent greater than that shifted to Maricopa County.

For per capita cost shift comparison purposes, the table below identifies each county's total cost shift, population and the per capita cost shift. The per capita cost shift for a Pima County resident is almost five times that of a Maricopa County resident and is the second highest per capita cost shift in the State.

Fiscal Year 2017 State Cost Shifts to Counties.

County	Total Cost Shift	Population	Per Capita Cost Shift
Apache	\$ 237,874	72,215	\$ 3.29
Cochise	545,548	129,112	4.23
Coconino	808,513	141,602	5.71
Gila	244,613	54,406	4.50
Graham	353,716	38,475	9.19
Greenlee	280,536	10,555	26.58
La Paz	285,782	21,183	13.49
Maricopa	18,979,979	4,076,438	4.66
Mohave	1,239,695	205,716	6.03
Navajo	429,731	109,671	3.92

Fiscal Year 2017 State Cost Shifts to Counties.

County	Total Cost Shift	Population	Per Capita Cost Shift
Pima	22,703,491	1,009,371	22.49
Pinal	3,492,322	406,468	8.59
Santa Cruz	569,421	50,270	11.33
Yavapai	1,516,107	217,778	6.96
Yuma	486,703	214,991	2.26

Noteworthy issues that affect the County's budget are discussed below.

Arizona Department of Juvenile Corrections (ADJC). Last year, the County was required to transfer \$1,840,289 to the ADJC through the Arizona Department of Administration. Total statewide county impact has been reduced by a one-time \$8 million, which should reduce the County's payment to \$613,389.

Pima County suggested the State eliminate the ADJC, since the counties are prepared to provide these services more effectively and efficiently than the State. Smaller counties may be adversely affected; however, they may enter into intergovernmental agreements with counties of sufficient juvenile correction and treatment capacity and do so at a cost that would be significantly less than what the State will and/or would charge these smaller counties.

Supplemental Appropriation for the Presidential Preference Election. The County budgeted approximately \$1.7 million for the Presidential Preference Election (PPE); \$630,910 for the voter registration function of the County Recorder's Office and \$1,017,264 for the Department of Elections for a total of \$1,648,174. Our expenses are less than anticipated. The County will be reimbursed \$1,356,787 based on this supplemental appropriation from the State.

Increase in Superior Court Salaries (Mandated Transfer). The Legislature increased the salaries of Superior Court Judges without the consent of the counties, resulting in another mandated cost transfer. It should be noted this cost transfer is cumulative. The transfer will reoccur each year in an amount greater than the previous year. This increase in salaries was part of a bargain with the courts that resulted in the court system consenting to two additional members on the Arizona Supreme Court. This agreement between the State Executive, Legislative and Judicial Branches mean higher cost transfers to counties that had no input on the arrangement.

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Highway User Revenue Fund. This Legislature fulfilled the promise made by previous Legislatures to further reduce the transfer of Highway User Revenue Funds (HURF) by decreasing the transfers for purposes other than transportation, streets and highways by another \$30 million. This will increase the County's receipt of HURF revenues by an estimated \$1.75 million.

It should be noted the State Legislature continues to sweep over \$96 million of HURF to support the Arizona Department of Public Safety. These funds could be better spent maintaining and building streets and highways in the state, counties and cities of Arizona.

In summary, State cost shifts continue nearly unabated. There has been no legislative relief provided to the counties that are now having to provide additional State Aid to Education, something that could cost Pima County nearly \$16 million this fiscal year and next fiscal year. As you know, the County is in active litigation with the State regarding this subject. Presently, Oral Arguments on the County's Motion for Summary and Judgment are scheduled for May 23, 2016 in Maricopa County Tax Court. These arguments had been scheduled for May 9, 2016, however, due to the unavailability of the State Attorney General, the arguments were postponed to May 23 on the condition that judge hearing the case would issue a ruling before the end of this fiscal year.

Efforts to Resolve the Additional State Aid to Education Conflict. The legislation transferring this fiscal burden to the County last year was ill-conceived and, in our view, unconstitutional. To resolve this problem, County staff and contracted lobbyist met with the Arizona Tax Research Association and the Governor's staff to develop a compromise that could have been enacted into legislation this year. This compromise would have allowed the County, by majority vote of the Board, to adopt a property tax reduction excise tax and apply the proceeds of such a tax to property tax reduction. Such would allow the County to immediately reduce our property tax burden by 20 to 25 percent. Doing so would essentially eliminate and/or minimize future County contributions to the Constitutional One-percent Homeowner Property Tax Rebate. Even though the parties involved worked in good faith, the compromise was not advanced by the Governor's Office, nor heard in any legislative committee. Hence, we are back where we started, contesting the constitutionality of the previous Legislature's enactment of this property tax transfer.

At the same time the County was working toward compromise, Representative Justin Olson advanced House Bill (HB) 2480, which attempted to correct many of the unconstitutional provisions of the previous year's legislation, while offering the counties no option for relief. In fact, HB 2480 would have been more punitive by capping the County's primary property tax rate. This proposed punitive legislation, even though it was an attempt to correct

botched previous legislation, was overwhelmingly rejected by the Republican Committee of the House by a vote of 22 to 8; hence, it never advanced.

At this point, we are left with few options other than to pursue litigation. However, we stand ready to continue to work with the Arizona Tax Research Association and the Governor's Office if they will engage in meaningful dialog and leadership.

General Obligation Bonding Restrictive Disclosure (HB 2402). At the request of Supervisor Ally Miller, Representative Vince Leach advanced legislation related to General Obligation bonding publicity pamphlet disclosures. These disclosures would have grossly exaggerated the funds required by taxpayers to retire voter authorized General Obligation debt. This measure was amended to attempt to make it more palatable; however, even the amended version never progressed out of either House of the Legislature and is now dead.

The County opposed this legislation as essentially meaningless and an attempt to mislead voters regarding the actual cost of debt financing. A much more meaningful measure that would have had County support would be to restrict all future General Obligation bond debt financing debt retirement periods to no longer than 15 years for any city, county, school district, community college, or the State. The County has always managed our short-term debt well and believe this model should be applied uniformly throughout the State and to all jurisdictions.

Groundwater Law and Assured Water Supply. The Governor vetoed legislation that would have relaxed assured water supply requirements in some counties. The County observed this legislation without actively intervening even though we believed it was poor public policy. The County does have its own concerns regarding the arbitrary and artificial boundaries created by assured water supply designations. In our case within Pima County, because Tucson Water is a regional water provider, a landowner in the unincorporated area fortunate to find themselves on the right side of a water assurance boundary receives water service; whereas one located across the street, outside the boundary, does not even though there is no hydrologic or practical difference in providing water service to the disenfranchised property. This inequity needs to be corrected; either locally by the water provider or through future State Legislation.

Community Facilities Districts. The Governor vetoed legislation designed to provide for or allow Community Facilities Districts (CFD) on larger projects within a county or city. Pima County did not have any great concern over this legislation, since it applied only to lands already zoned or planned and at 600 or more contiguous acres. In Pima County, this applies to very few projects; hence, we would not have been adversely impacted. This legislation does highlight the fact that developers do have financial difficulties securing infrastructure financing through conventional banks or lending institutions today. These difficulties are

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unlikely to be resolved in the near term; hence, CFDs for larger projects was perhaps the best alternative to the lack of private financing for essential infrastructure to serve urban development.

Pima County supported this legislation with key restrictions, such as the debt term being no longer than 15 years and debt being incurred only after actual development and sales of individual properties had occurred on the land, which would have prevented highly speculative ventures. We believe this legislation in some form should receive serious future consideration due to the lack of fees or taxes dedicated to public infrastructure, as well as the lack of private financing for same.

CHH/anc

Attachments

- c: John Bernal, Deputy County Administrator for Public Works
- Tom Burke, Deputy County Administrator for Administration
- Jan Leshner, Deputy County Administrator for Community and Health Services
- Keith Dommer, Director, Finance and Risk Management
- Robert Johnson, Budget Manager, Finance and Risk Management
- Michael Racy, Racy Associates Inc.

Fiscal Year 2017 State Budget Impacts to Counties

	HURF Shifts to DPS ¹	SVP Costs at ASH ²	100% of RTC Costs at ASH ³	Increased County Share of JP Salaries ⁴	Superior Court Judge Salaries ⁵	ACJC Indigent Defense ⁶	Elimination of County Lottery Revenues ⁷	Elimination of Prop. 204 Funding ⁸	Costs for Juveniles Housed at DJC ⁹	1% Property Tax Cap Liability Shift ¹⁰	ADOR Appropriation Shift ¹¹	Total Continuing Impacts to Counties
Apache	\$ 59,677	\$ -	\$ -	\$ 59,084	\$ 1,369.82	\$ 5,744	\$ -	\$ -	\$ 36,484	\$ -	\$ 75,516	\$ 237,874
Cochise	\$ 70,526	\$ 35,533	\$ 106,880	\$ 108,320	\$ 6,849.07	\$ 11,776	\$ -	\$ -	\$ 66,975	\$ -	\$ 138,688	\$ 545,548
Coconino	\$ 85,433	\$ 48,114	\$ 378,210	\$ 66,117	\$ 6,849.07	\$ 13,362	\$ -	\$ -	\$ 68,492	\$ -	\$ 141,935	\$ 808,513
Gila	\$ 32,535	\$ -	\$ 80,160	\$ 37,983	\$ 2,739.63	\$ 7,287	\$ -	\$ -	\$ 27,315	\$ -	\$ 56,593	\$ 244,613
Graham	\$ 21,139	\$ -	\$ -	\$ 33,762	\$ 1,369.82	\$ 4,979	\$ -	\$ 234,200	\$ 18,966	\$ -	\$ 39,301	\$ 353,716
Greenlee	\$ 7,984	\$ -	\$ -	\$ 22,508	\$ 1,369.82	\$ 1,003	\$ -	\$ 234,400	\$ 4,362	\$ -	\$ 8,909	\$ 280,536
La Paz	\$ 34,755	\$ -	\$ -	\$ 54,863	\$ 1,369.82	\$ 3,067	\$ -	\$ 159,700	\$ 10,393	\$ -	\$ 21,634	\$ 285,782
Maricopa	\$ 912,217	\$ 2,121,356	\$ -	\$ 25,982	\$ 9,245,604	\$ 447,723	\$ 249,772	\$ -	\$ 1,946,828	\$ -	\$ 4,030,498	\$ 18,979,979
Mohave	\$ 107,887	\$ 140,928	\$ -	\$ 97,066	\$ 9,588.70	\$ 20,671	\$ 550,035	\$ -	\$ 102,142	\$ -	\$ 211,377	\$ 1,239,695
Navajo	\$ 71,820	\$ 71,186	\$ -	\$ 99,880	\$ 5,479.26	\$ 13,131	\$ -	\$ -	\$ 54,779	\$ -	\$ 113,456	\$ 429,731
Pima	\$ 380,670	\$ 540,948	\$ -	\$ 245,843	\$ 41,094.45	\$ 88,346	\$ 249,772	\$ 3,817,800	\$ 499,904	\$ 15,804,053	\$ 1,035,061	\$ 22,703,491
Pinal	\$ 170,834	\$ 140,204	\$ 166,796	\$ 139,269	\$ 13,698.15	\$ 29,269	\$ 550,035	\$ -	\$ 191,646	\$ 1,693,795	\$ 396,776	\$ 3,492,322
Santa Cruz	\$ 30,110	\$ 35,653	\$ 176,654	\$ 30,949	\$ 2,739.63	\$ 4,210	\$ -	\$ 214,800	\$ 24,234	\$ -	\$ 50,071	\$ 569,421
Yavapai	\$ 102,015	\$ 237,487	\$ -	\$ 92,846	\$ 9,588.70	\$ 28,955	\$ 550,035	\$ 164,700	\$ 107,650	\$ -	\$ 222,830	\$ 1,516,107
Yuma	\$ 91,545	\$ 6,230	\$ -	\$ 53,409	\$ 8,218.89	\$ 20,777	\$ -	\$ -	\$ 99,830	\$ -	\$ 206,694	\$ 486,703
Total	\$ 2,179,148	\$ 3,377,640	\$ 908,700	\$ 1,167,881	\$ 9,357,929	\$ 700,300	\$ 2,149,649	\$ 4,825,600	\$ 3,260,000	\$ 17,497,848	\$ 6,749,337	\$ 52,174,032

¹Shifts \$97,192,500 from the Highway User Revenue Fund (HURF) to the Department of Public Safety (DPS). This does include the effects of the \$60 million local government HURF restoration.

²Continues a session law provision that requires counties to pay 31 percent of the cost of treatment and confinement for Sexually Violent Persons (SVP) at the Arizona State Hospital (ASH). Based on actual FY2015 billings and adjusted for any known increase or decrease in patient population.

³Continues session law requiring counties to pay for 100 percent of the cost of Restoration To Competence (RTC) treatments at ASH. Based on actual FY2015 billings. ⁴Starting in FY11, the state share of Justice of Peace salaries is permanently lowered from 38.5 percent to 19.25 percent. Includes the impact of Judicial Salary increases as part of the FY 2017 budget (counties pay for 100 percent of the increase).

⁵Maricopa County is required to pay for 100 percent of Superior Court Judge Salaries. As part of the FY 2017 budget, the state increased judicial salaries by 1.5 percent. Counties pay for 50 percent of the increase, except for Maricopa which pays for 100 percent.

⁶No state appropriation for ACJC State Aid to Indigent Defense is included. These monies are instead used to fund Attorney General and DPS operations.

⁷The statutory distribution of lottery revenue to the counties was originally eliminated in FY11. In FY 2014, a direct appropriation to counties was included to replace this distribution.

⁸Does not restore Prop. 204 Hold Harmless payments.

⁹The FY 2017 budget requires ADJC to collect \$11.3 million from the counties based on population. CSA estimates distribute the \$12 million using 2010 census population numbers. The FY 2017 budget also includes a one-time distribution of funds to offset the cost of ADJC to counties. This appropriation is for \$8 million and is distributed as detailed in the budget.

¹⁰CSA analysis on estimated 1% Cost liability for FY 2017 using actually FY 2016 determinations by the Property Tax Oversight Commission.

¹¹Continues permanent law which requires the Arizona Department of Revenue (ADOR) to assess a fee to every county, city, and town. Session law requires the amount raised from the fees to equal \$20,755,835, of which \$6,749,337 is the aggregate county share, and proportionally allocates each county's share based on county population.

Note: Additional ongoing impacts not quantified include:

- Elimination of Post-Conviction Public Defender's Office
- Elimination of Department of Health Services' grants to counties (Prenatal, Tuberculosis, influenza, food borne illness)
- Suspension of State Lake Improvement Fund (SLIF) grant program
- Reduction of Federal Resources (Secure Rural Schools, Payment In Lieu of Tax, Criminal Justice, Public Health, among others)

FY 2016-2017 State Budget

(As Passed by the Legislature on May 4, 2016)

Summary

The Arizona Legislature passed the FY 2016-2017 budget on May 4, 2016. The budget bills outline a \$9.6 billion spending plan and contains many Executive and Legislative priorities, including a \$32 million tax cut, the elimination of several rollover payments, a one-time increase in transportation funding, the consolidation of state agencies and boards, and holding K-12 harmless with one-time funding. Based on current revenue projections, the budget calls for a structural balance in FY 2017 of \$681,200 and a final ending balance of \$65,712,200.

Major County Issues

- **Arizona Department of Juvenile Corrections (ADJC) One-Year Cost Reduction:** As session law, requires counties to transfer \$11,260,000 to ADJC. This amount reflects \$740,000 of permanent cost savings within the agency. As session law, appropriates \$8 million to the Arizona Department of Administration (ADOA) to partially reimburse counties for ADJC costs for FY 2017. After adjusting for the reimbursement, counties' total costs for ADJC for FY 2016 will be \$3,260,000. [HB 2695 Sec. 128 \(pg. 80\) subsection C](#) & [HB 2701 Sec. 22 \(pg. 16\)](#) – (**\$8 million savings for counties**)
- **Flexibility Language:** As session law, allows counties under 250,000 persons to use any source of county revenue to meet any county fiscal obligation up to \$1.25 million. Counties are still required to report to the Joint Legislative Budget Committee (JLBC) by October 1, 2016, whether the county used the flexibility language, and if so, the specific amount and source of revenue used. [HB 2708 Sec. 14 \(pg. 6\)](#)
- **Lottery Revenue:** As session law, appropriates \$5.5 million to the Department of Administration to distribute to the 10 counties under 200,000 persons in lieu of county lottery revenue. This language does not include Maricopa, Mohave, Pima, Pinal, or Yavapai counties. [HB 2695 Sec. 128 \(pg. 80\) subsection A](#) – (**\$2.75 million impact to counties**)
- **Supplemental Appropriation for the Presidential Preference Election (PPE):** As session law, appropriates, in FY 2016, \$6.13 million to the Office of the Secretary of State to reimburse counties for costs associated with the PPE. This appropriation is in addition to the current funding appropriated in the FY 2016 budget. The language restricts per county reimbursement to the lesser of the actual costs or the following amounts:
 - For counties with an official active voter registration total of 400,000 persons or more, \$2.50 per active registered voter.
 - For counties with an official active voter registration total between 35,000 and 400,000 persons, \$3.00 per active registered voter.
 - For counties with an official active voter registration total fewer than 35,000 persons, \$3.50 per active registered voter.

This language further prohibits reimbursement of regular pay and associated employer-related expenses for permanent employees, maintenance of infrastructure and equipment, and any

expenditure that is not reimbursable as prescribed by the [State of Arizona Accounting Manual. HB 2695 Sec. 125 \(pg. 78\)](#) – (**\$6.1 million savings for counties**)

- **Increased Superior Court Salaries:** Provides for a two year phase in of a 3 percent pay raise for judges. Beginning in January 2017, the first phase will provide superior court judges with a 1.5 percent pay raise. Maricopa County pays for 100 percent of superior court judges' salaries and all other counties pay for 50 percent plus ERE. Once the raise is fully implemented in FY 2018, the total cost to counties will be approximately \$691,540. [HB 2695 Sec. 60 \(pg. 47 lines 36-39\)](#) – (**\$172,885 impact to counties** in FY 2017 – does not include adjustments for Judges Pro Tempore)
- **Highway User Revenue Fund (HURF):** As session law, requires, prior to any other distributions, \$30 million in FY 2017 and \$30 million in FY 2018 in HURF monies be distributed as follows:
 - 33.231% to counties: \$9,969,300
 - 48.097% to cities: \$14,429,100
 - 5.247% to cities over 300,000 persons: \$1,574,100
 - 13.425% for counties over 800,000 persons for controlled access: \$4,027,500

The FY 2017 amount is in addition to \$30 million authorized by the FY 2016 budget, bringing the total to \$60 million in FY 2017, of which, \$19.9 million will be allocated to counties. The measure further stipulates that the allocation to each county will be made according to current statute (A.R.S. § 28-6538), governing the distributions of HURF monies. [HB 2708 Sec. 8 \(pg. 4\) & Sec. 9 \(pg. 5\)](#) – (**\$10 million increase for counties**)

County Issues by Budget Bill

HB 2695 general appropriations; 2016-2017

- **Eliminates Sweep of State Aid to Indigent Defense to the Attorney General (AG):** Eliminates an \$800,100 appropriation from the State Aid to Indigent Defense Fund to the AG for capital post-conviction prosecution. *Eliminated*
- **Out of County Tuition:** Appropriates \$1,273,800 from the State General Fund for rural county reimbursement subsidies for community colleges. Apache County receives \$699,300 and Greenlee County receives \$574,500. This is unchanged from last year. *Sec. 26 (pg. 22)*
- **County Attorneys Fund:** Continues to provide \$973,600 of Arizona Criminal Justice Commission (ACJC) grant monies to counties. *Sec. 30 (pg. 25)*
- **County Participation; Child Support Enforcement:** Appropriates \$8,740,200 for county participation of child support enforcement in the Department of Economic Security (DES). This amount is unchanged from last year. *Sec. 35 (pg. 27)*
- **State Forester; Environmental County Grants:** Continues to appropriate \$250,000 to the State Forester for county environmental projects. *Sec. 45 (pg. 38)*
- **County Tuberculosis Provider Care and Control:** Maintains a \$590,700 appropriation for county tuberculosis programs. *Sec. 51 (pg. 40)*

- **County Judicial Reimbursements:** Continues to provide \$187,900 to the Supreme Court to reimburse counties for state grand juries and capital post-conviction relief (PCR). The state grand jury reimbursement is limited to \$97,900 and the PCR reimbursement is limited to \$90,000. *Sec. 60 (pg. 44)*
- **Increased Adult Probation Funding:** Increases Adult Standard Probation funding by \$1.8 million and Adult Intensive Probation funding by \$456,900. This increased appropriation is in response to the courts indicating probation was currently underfunded. It is still unclear exactly how this money will be allocated amongst the counties. *Sec. 60 (pg. 45)*
- **Increased Superior Court Salaries:** Provides for a two-year phase-in of a 3 percent pay raise for judges. Beginning in January 2017, the first phase will provide superior court judges with a 1.5 percent pay raise. Maricopa County pays for 100 percent of superior court judges' salaries and all other counties pay for 50 percent plus ERE. Once the raise is fully implemented in FY 2018, the total cost to counties will be approximately \$691,540. *Sec. 60 (pg. 47 lines 36-37)*
- **Highway User Revenue Fund (HURF) to Department of Public Safety (DPS):** Transfers \$96,409,200 from HURF to DPS. This amount is \$403,100 less than last year. *Sec. 87 (pg. 57)*
NOTE: Counties received a HURF restoration in the revenue budget reconciliation bill.
- **State Aid to Indigent Defense to DPS:** Appropriates \$700,000 from the State Aid to Indigent Defense Fund to DPS for operations. *Sec.87 (pg. 57)*
- **Justice of the Peace (JP) Salaries:** Appropriates \$1,205,100 to the State Treasurer to cover the state's share of JP salaries. This amount is unchanged from last year. *Sec. 100 (pg. 65)*
- **Law Enforcement Boating Safety Fund (LEBSF):** Appropriates \$2,183,800 to be allocated to county law enforcement agencies in counties which had a law enforcement and boating safety program in existence prior to July 1, 1990 (Apache, Coconino, Gila, La Paz, Maricopa, Mohave, Navajo, and Yuma). *Sec. 100 (pg. 65)*
- **Supplemental Appropriation for the Presidential Preference Election (PPE):** As session law, appropriates, in FY 2016, \$6.13 million to the Office of the Secretary of State to reimburse counties for costs associated with the PPE. This appropriation is in addition to the current funding appropriated in the FY 2016 budget. The language restricts per county reimbursement to the lesser of the actual costs or the following amounts:
 - For counties with an official active voter registration total of 400,000 persons or more, \$2.50 per active registered voter.
 - For counties with an official active voter registration total between 35,000 and 400,000 persons, \$3.00 per active registered voter.
 - For counties with an official active voter registration total fewer than 35,000 persons, \$3.50 per active registered voter.

This language further prohibits reimbursement of regular pay and associated employer-related expenses for permanent employees, maintenance of infrastructure and equipment, and any expenditure that is not reimbursable as prescribed by the [State of Arizona Accounting Manual](#). *Sec. 125 (pg. 78)*

- **Lottery Revenue:** As session law, appropriates \$5.5 million to the Department of Administration to distribute to the 10 counties under 200,000 persons in lieu of county lottery revenue. This language does not include Maricopa, Mohave, Pima, Pinal, or Yavapai counties. *Sec. 128 (pg. 80) subsection A*
- **Graham County Assistance:** Appropriates \$500,000 from the State General Fund to ADOA for distribution to Graham County for maintenance of essential county services. *Sec. 128 (pg. 80) subsection B*
- **Arizona Department of Juvenile Corrections (ADJC) Cost Reduction:** Appropriates \$8,000,000 from the State General Fund to ADOA for a one-time distribution to counties to partially reimburse for ADJC costs. The amounts each county are to receive are detailed as follows:

Apache	\$89,500	Mohave	\$250,500
Cochise	\$164,400	Navajo	\$1,226,900
Coconino	\$168,300	Pima	\$1,226,900
Gila	\$67,100	Pinal	\$59,300
Graham	\$46,600	Santa Cruz	\$59,300
Greenlee	\$10,500	Yavapai	\$264,100
La Paz	\$25,700	Yuma	\$245,000
Maricopa	\$4,777,300		

Sec. 128 (pg. 80) subsection C

- **Court Fund Transfers:** As session law, requires the following amounts to be transferred to the State General Fund:
 - In FY 2017:
 - \$300,000 from the Alternative Dispute Resolution Fund
 - \$300,000 from the Lengthy Trial Fund
 - \$500,000 from the Court Appointed Special Advocate Fund
 - \$250,000 from the Drug Treatment and Education Fund
 - \$3,650,000 from the Juvenile Probation Services Fund
 - In FY 2018:
 - \$300,000 from the Alternative Dispute Resolution Fund
 - \$200,000 from the Lengthy Trial Fund
 - \$400,000 from the Court Appointed Special Advocate Fund
 - \$250,000 from the Drug Treatment and Education Fund
 - \$1,850,000 from the Juvenile Probation Services Fund

Sec. 156 (pg. 91)

SB 1527 appropriations; capital outlay; 2016-2017

- **Flagstaff Veterans' Home:** Appropriates \$10 million to the Arizona Department of Veterans Services for the construction of a Veteran's Home in Flagstaff. *Sec. 6 (pg. 3)*
- **Interstate 10 (I-10) Widening Projects:** Appropriates \$30 million to the Arizona Department of Transportation (ADOT) to be combined with federal funds to widen I-10 from Early Road to Interstate 8 and the I-10 interchange with State Route 87. *Sec. 8 (pg. 4)*

- **State Route 189 (SR-189):** Appropriates \$25 million to ADOT to accelerate the completion of the SR-189 construction project from the Mariposa port of entry to Interstate 19. *Sec. 9 (pg. 4)*

HB 2701 criminal justice; budget reconciliation; 2016-2017

- **State Department of Corrections; Conditional Incarceration Contracts:** As session law, if a prisoner population trigger is hit, the Arizona Department of Corrections (ADC) is authorized to award a contract for 1,000 additional medium security beds. Before issuing any contracts to private third parties, ADC must first offer a contract to a county or group of counties, with a population under 200,000, for at least 250 beds, provided the county or counties meet the requirements of the request for proposals and the per diem rate is equal to or less than other competitive bidders. *Sec. 12 (pg. 14) subsection C*
- **Suspension of County Non-supplanting Funding Requirements:** Continues the suspension of county non-supplanting requirements associated with funding of probation services, criminal case processing, and alternative dispute resolution programs. *Sec. 18 (pg. 16)*
- **Arizona Department of Juvenile Corrections (ADJC) County Contributions:** As session law, requires counties to transfer \$11,260,000 to ADJC. This amount reflects \$740,000 of permanent cost savings within the agency. *Sec. 21 (pg. 16) NOTE: A one-time reduction in this amount is included in the General Appropriations Act.*

SB 1535; budget reconciliation; health; 2016-2017

- **Arizona Long Term Care System (ALTCS):** FY 2017 contributions total \$249,980,000 for all 15 counties into the Long Term Care System Fund. This is an increase of \$1,117,100 over the JLBC Baseline and is due to the restoration of ALTCS dental care. *Sec. 15 (pg. 15)*
- **Sexually Violent Persons (SVP) Payments:** Continues to require counties to reimburse the Department of Health Services (DHS) for 31 percent of the cost associated with housing SVPs at the Arizona State Hospital (ASH) for FY 2017. Includes flexibility language allowing counties to pay for this program with any source of county revenue and excludes any payments from the county expenditure limitation *Sec. 16 (pg. 15)*
- **Restoration to Competency (RTC) Payments:** Continues to require counties to reimburse DHS for 100 percent of the cost associated with competency restoration treatment at the ASH. Includes “flexibility language” allowing counties to pay for this program with any source of county revenue and excludes any payments from the county expenditure limitation. *Sec. 17 (pg. 16)*
- **Acute Care Contributions:** Sets county Acute Care contributions at \$47,233,500 for all 15 counties. This amount is unchanged from the JLBC Baseline and includes a deflator for the Maricopa County contribution *Sec. 20 (pg. 19)*
- **Disproportionate Uncompensated Care Pool (DUC Pool):** Requires the collection of \$2,646,200 in DUC Pool contributions from counties other than Maricopa County. This amount is unchanged from last year. *Sec. 21 (pg. 20)*

HB 2708 budget reconciliation; revenue; 2016-2017

- **Elderly Assistance Fund (EAF) Restrictions:** As permanent law, requires the board of supervisors to spend any monies remaining in the EAF from and after December 31, 2015, solely on the elderly assistance program. *Sec. 4 (pg. 3)*
- **Highway User Revenue Fund (HURF):** As session law, requires that prior to any other distributions, \$30 million in FY 2017 and \$30 million in FY 2018 in HURF monies be distributed as follows:
 - 33.231% to counties: \$9,969,300
 - 48.097% to cities: \$14,429,100
 - 5.247% to cities over 300,000 persons: \$1,574,100
 - 13.425% for counties over 800,000 persons for controlled access: \$4,027,500

The FY 2017 amount is in addition to \$30 million authorized by the FY 2016 budget, bringing the total to \$60 million in FY 2017, of which, \$19.9 million will be allocated to counties. The measure further stipulates that the allocation to each county will be made according to current statute (A.R.S. § 28-6538), governing the distributions of HURF monies. *Sec. 8 (pg. 4) & Sec. 9 (pg. 5)*

- **County Flexibility:** As session law, allows counties under 250,000 persons to use any source of county revenue to meet any county fiscal obligation up to \$1.25 million. Counties are still required to report to the Joint Legislative Budget Committee (JLBC) by October 1, 2016, whether the county used the flexibility language, and if so, the specific amount and source of revenue used. *Sec. 14 (pg. 6)*
- **La Paz Expenditure Limitation Waiver:** As session law, waives the penalty for exceeding the county expenditure limit for Fiscal Years 2014, 2015, and 2016 for any amount related to the contract with Los Angeles County to import and dispose of incinerator ash. *Sec. 16 (pg. 7)*
- **Arizona Department of Revenue (ADOR) Cost Shift:** As session law, sets the amount the Arizona Department of Revenue is to collect from local government at \$20,755,835 and lays out a framework for calculating each jurisdiction's share.

The aggregate county share of the fee is determined through the following procedure:

- 1) Calculate the aggregate amount distributed to counties from:
 - a) A.R.S. § 42-5029 (TPT distribution base)
 - b) A.R.S. § 42-6103 (county general fund excise tax)
 - c) A.R.S. § 42-6107 (county transportation excise tax for roads)
 - d) A.R.S. § 42-6108 & 42-6108.01 (tax on hotels – Pima only)
 - e) A.R.S. § 42-6109 & 42-6109.01 (jail facility excise tax – Maricopa only)
 - f) A.R.S. § 42-6110 (use tax on electricity)
 - g) A.R.S. § 42-6111 (county capital projects)
 - h) A.R.S. § 42-6112 (county excise tax for county judgment bonds – La Paz only)
- 2) Calculate the aggregate amount distributed to counties, cities and towns, MAG, and PAG from:

- a) All taxes listed under step one
 - b) A.R.S. § 42-6001 (city excise taxes)
 - c) A.R.S. § 43-206 (urban revenue sharing)
 - d) A.R.S. § 42-6105 (MAG transportation tax)
 - e) A.R.S. § 42-6106 (PAG transportation tax)
- 3) Calculate what percentage the aggregate amount calculated under step 1 is of the aggregate amount calculated under step 2 and apply this percentage to the \$20.8 million.

The county share of the \$20.8 million will be approximately \$6.7 million. The session law further stipulates that the aggregate county share shall be proportionally collected from each county, based on population. *Sec. 18 (pg. 10)*

County Flexibility Language in FY 2016-2017 State Budget

In addition to statutory provisions, the State Budget passed on May 4, 2016, included a variety of allowances for county financial flexibility. Please see below for a breakdown of the flexibility language contained in various parts of the state budget and one additional bill.

Comprehensive Flexibility Language: As session law, allows counties with fewer than 250,000 persons (Apache, Cochise, Coconino, Gila, Graham, Greenlee, La Paz, Mohave, Navajo, Santa Cruz, Yavapai, and Yuma) to use any source of county revenue, including countywide special districts controlled by the board of supervisors, to meet a county fiscal obligation for FY 2017 up to \$1.25 million. Counties are required to report to the Joint Legislative Budget Committee (JLBC) by October 1, 2016, whether the county used the flexibility language, with the specific amount and revenue source.

[HB 2708 revenue; budget reconciliation; 2016-2017 Sec. 14 \(pg. 6\)](#)

A. Notwithstanding any other law, for fiscal year 2016-2017, a county with a population of less than two hundred fifty thousand persons according to the 2010 United States decennial census may meet any county fiscal obligation from any source of county revenue designated by the county, including monies of any countywide special taxing jurisdiction of which the board of supervisors serves as the board of directors. Under the authority provided in this subsection, a county may not use more than \$1,250,000 for purposes other than the purposes of the revenue source.

B. On or before October 1, 2016, all counties with a population of less than two hundred fifty thousand persons according to the 2010 United States decennial census shall report to the director of the joint legislative budget committee whether the county used a revenue source for purposes other than the purposes of the revenue source to meet a county fiscal obligation pursuant to subsection A of this section and, if so, the specific source and amount of revenues that the county intends to use in fiscal year 2016-2017.

Continuing Impacts with Flexibility Language in State Cost Shifts

Sexually Violent Persons (SVP) Payments: Includes “flexibility language” allowing all counties to pay for the ongoing cost shift with any source of county revenue, as the budget requires that counties reimburse the Department of Health Services for 31 percent of the cost to house SVPs at the Arizona State Hospital.

[SB 2704; budget reconciliation; health; 2016-2017 Sec. 16 \(pg. 15\)](#)

D. Notwithstanding any other law, a county may meet any statutory funding requirements of this section from any source of county revenue designated by the county, including funds of any countywide special taxing district in which the board of supervisors serves as the board of directors.

Restoration to Competency (RTC) Payments: Includes “flexibility language” allowing counties to pay for this ongoing cost shift with any source of county revenue, by continuing to require counties to reimburse DHS for 100 percent of the cost associated with competency restoration treatment at the Arizona State Hospital.

[SB 2704; budget reconciliation; health; 2016-2017 Sec. 17 \(pg. 16\)](#)

D. Notwithstanding any other law, a county may meet any statutory funding requirements of this section from any source of county revenue designated by the county, including funds of any countywide special taxing district in which the board of supervisors serves as the board of directors.

Statutory Flexibility Language for State Cost Shifts

Arizona Department of Juvenile Corrections (ADJC) Cost Shift: The FY 2016 budget added a new section of statute authorizing ADJC to assess a “committed youth confinement cost sharing fee” to each county. Included in the statute was a provision to allow counties to use any source of county revenue to pay this fee.

[A.R.S. § 41-2832](#)

D. Notwithstanding any other law, a county may meet the cost sharing requirements of this section from any source of county revenue designated by the county, including monies of any countywide special taxing jurisdiction in which the board of supervisors serves as the board of directors.

Arizona Department of Revenue (ADOR) Cost Shift: The FY 2016 budget added a new section of statute authorizing ADOR to assess fees to each city, town, county, council of governments, and regional transportation authority for the collection of sales tax. Included in the statute was a provision to allow cities and counties to use any source of city or county revenue to pay this fee.

[A.R.S. § 42-5041](#)

G. Counties, cities and towns may meet their cost sharing obligation from any source of county, city or town revenue designated by the appropriate county, city or town. The county sources may include monies of any countywide special taxing jurisdiction in which the board of supervisors serves as the board of directors.



FY 2017

As Per FY 2017 Budget

HURF Estimated Revenue (Millions of Dollars) Distribution Flow

^a ADOT official forecast, September 2015.

^b HURF Transfer to DPS of \$96,409,200 and continues to suspend the \$10 million statutory cap (A.R.S. 28-6537).

^c \$625,200 for Registration Compliance & \$26,300 for retention.

^d \$1.0 million for highway projects recommended by the Commerce Authority and approved by the State Transportation Board.

^e Laws 2015, Ch.10, Sec. 12 creates a special, off-the-top distribution for local governments in FY2017.

^f As session law, the FY 2017 budget appropriates \$30 million in general fund revenue to local governments.

^g County Share of HURF Revenue to be allocated to each county based on fuel sales and unincorporated population.

^h Monies are allocated to individual cities and towns based on incorporated population and fuel sales.

ⁱ Cities over 300,000 persons receive 3% of HURF.

^j Distribution of SHF monies for design, acquisition and construction of controlled access highways. 25/75 split.

^k Transfer 1.51% of SHF share of VLT to the Parity Compensation Fund.

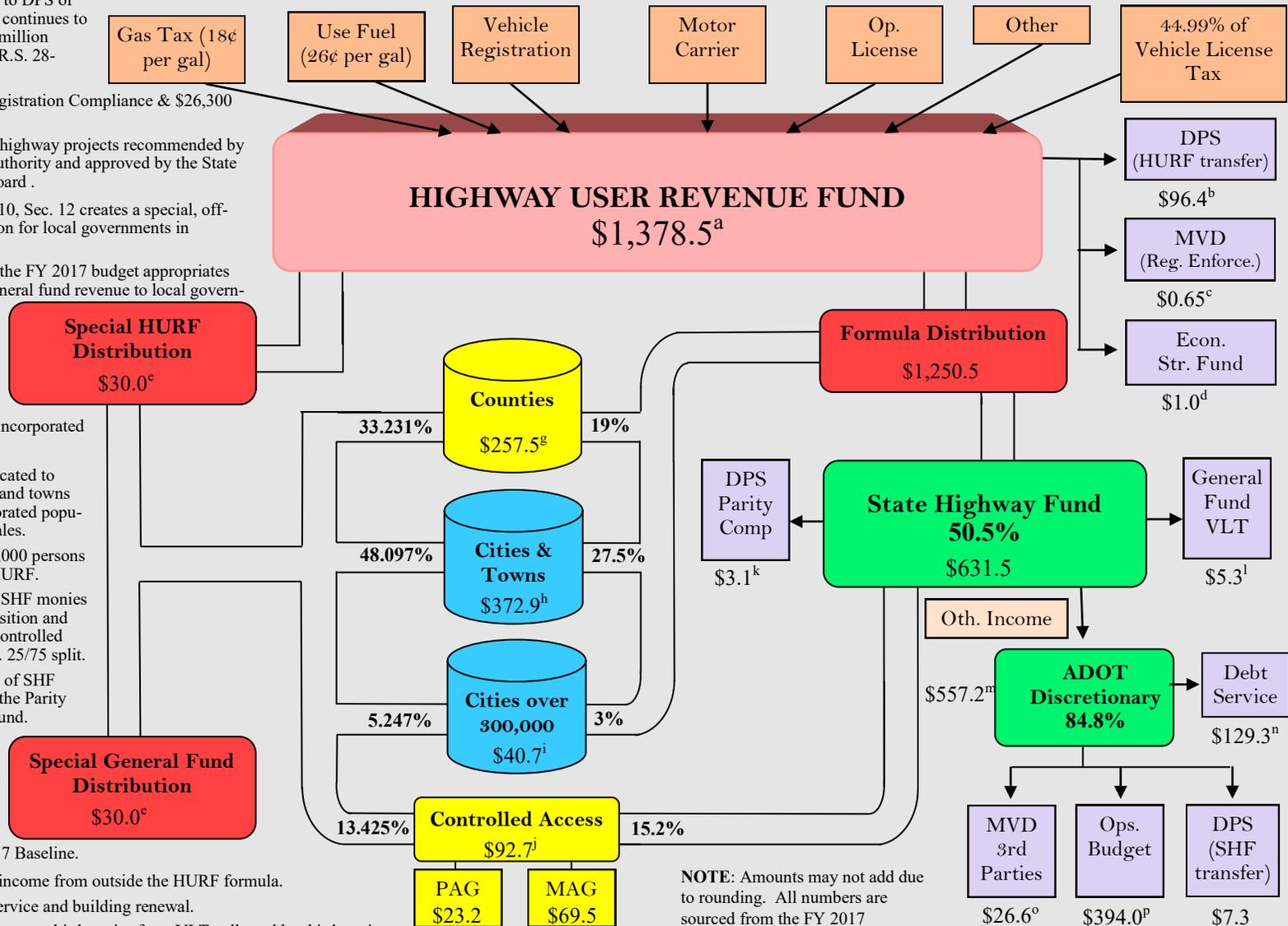
^l Special Transfer of a portion of the SHF share of VLT to the General Fund. Estimate based on FY 2017 Baseline.

^m Includes other income from outside the HURF formula.

ⁿ Includes debt service and building renewal.

^o Statutory payments to third parties from VLT collected by third parties.

^p Includes Operating Budget, miscellaneous, and statewide highway construction



NOTE: Amounts may not add due to rounding. All numbers are sourced from the FY 2017 JLBC Baseline and the ADOT HURF Forecast Report.