MEMORANDUM

Date: January 20, 2012

To: Chairman and Members
Pima County Bond Advisory Committee

From: C.H. Huckelberry
County Administrator

Re: **County Ability to Issue Debt Without Increasing the Voluntary Property Tax Rate Cap**

As I have explained in previous communications on this topic, the County's debt is largely controlled by a number of factors, including term, interest rate and amount. However, other important factors that control our debt issuance are: 1) the voluntary secondary property tax rate cap established by both the Bond Advisory Committee (BAC) and the Board of Supervisors; and 2) our property tax base assessed value.

I am attaching a recent memorandum to the Board of Supervisors informing them of the most recent economic forecast of our property tax base for the next five to six years. As you can see, this December 2011 forecast indicates the anticipated tax base reduction based on economic conditions will be worse than that forecasted in December 2010.

A side-by-side comparison by fiscal year of the forecast is also provided. Under current economic forecasting, the property tax base that had a peak in 2009 of $8.985 billion will decline to $7.118 billion in 2014. This is an approximate 21 percent decrease in the tax base over the period and reflects the depth and severity of the recession that we are currently experiencing.

The importance of the value of the property tax base cannot be understated when determining our ability to issue future general obligation debt, assuming we do not increase the <u>voluntary property tax rate cap</u> previously adopted. Today, we are well below the Constitutional debt limit and will never approach this amount based on our present budget and forecasting policies.

While we have always expected a multi-year decline in the property tax base, the present forecast indicates it will be deeper and longer than forecasted a year ago. Using this information, which will be checked against the actual tax base later this year, it will be difficult to issue new general obligation debt in 2013 without raising the voluntary property tax rate cap. Retaining the present tax rate cap of $0.815 with the new lower assessed value indicates new debt cannot be issued until through 2017. This remains a concern for the following two fiscal years and then essentially disappears after Fiscal Year 2019/20 due to our continued rapid debt repayment schedule. Issuing the balance of authorized General Obligation debt can occur without increasing the cap, but issuing new debt is not possible without increasing the voluntary cap.

In summary, based on the current forecast of the property tax base as of December 2011, it will be difficult to issue new debt without increasing the voluntary property tax rate cap until 2017. Previous communications with the BAC indicated issuing new debt would be likely in 2014, assuming sale of all previous authorized debt in the forecasted tax base of the previous year. This forecast, which was received last week, indicates economic conditions are worse than previously forecasted and would require a delay in the issuance of future general obligation debt, unless the voluntary property tax rate cap adopted for the 2004 issue was increased for the next authorization.

Many of these factors require continuous monitoring, including the actual valuation of the property tax base versus that forecasted. The actual valuation of the tax base for the coming year will be determined in the next three months and will determine the appropriateness of the forecast. In the past, all of our projections have been based on very conservative values; actual conditions are usually better.

CHH/dph

Attachment

c: The Honorable Chairman and Members, Pima County Board of Supervisors
Martin Willett, Chief Deputy County Administrator
Hank Atha, Deputy County Administrator for Community & Economic Development
John Bernal, Deputy County Administrator for Public Works
Jan Lesher, Deputy County Administrator for Medical & Health Services
Tom Burke, Director, Finance and Risk Management
Michelle Campagne, Deputy Director, Finance and Risk Management
Nicole Fyffe, Executive Assistant to the County Administrator
Diana Durazo, Special Staff Assistant to the County Administrator

MEMORANDUM

Date: January 13, 2012

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

From: C.H. Huckelberry
County Administrator

Re: **Updated Property Tax Base Projections**

As the Board knows, we have entered a period of prolonged economic stagnation and contraction of the Pima County property tax base. Previous forecasting results were provided to the Board and indicated a period of decline until Fiscal Year (FY) 2014/15.

As always, our economic forecasts are updated annually in December of each year. We recently completed our economic forecast for the next five years and report that the economic slump and impact on our property tax base will be greater and longer than predicted a year ago. The table below provides a six-year fiscal year analysis of our forecast of the secondary assessed value property tax base in December 2010 and the updated forecast of December 2011. The table also indicates the percent change year-to-year in the 2010 forecast and the year-to-year change in the new 2011 forecast.

Change in Secondary Assessed Values from December 2010 Projection to December 2011 Projection

Fiscal Year	As of December 2010	As of December 2011	Percent Change	Change from 2010 Projection
2011/12	$8,448,281,586			
2012/13	7,985,315,755	7,846,536,956	-5.5	-1.7
2013/14	7,759,331,319	7,282,934,997	-2.8	-6.1
2014/15	7,834,596,833	7,118,674,135	1.0	-9.1
2015/16	7,971,702,278	7,220,080,996	1.8	-9.4
2016/17	8,131,136,323	7,319,290,727	2.0	-10.0

By examining the table, it is clear the new forecast indicates the decrease in the property tax base will be $600 million greater than forecasted a year ago and will occur in FY 2014/15, rather than FY 2013/14.

This continuing decline of the tax base will pose future challenges in the development of our budgets. The tax base decline from FY 2011/12 to FY 2012/13 will equal nearly 7.3 percent, an increase of nearly two percent from that previously forecasted.

These forecasts stress the need for conservative budgeting practices for the foreseeable future, where no new revenues will be available for program or service expansion.

As we enter the budget preparation process for FY 2012/13, all County elected officials, departments and agencies should be aware of the continual decline in our revenue base and plan accordingly.

CHH/mjk

c: The Honorable Sarah Simmons, Presiding Judge, Superior Court
Elected Officials
Martin Willett, Chief Deputy County Administrator
Hank Atha, Deputy County Administrator for Community & Economic Development
John Bernal, Deputy County Administrator for Public Works
Jan Lesher, Deputy County Administrator for Medical & Health Services
Appointing Authorities