



MEMORANDUM

Date: February 14, 2024

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

From: Jan Leshner 
County Administrator

Re: **Financial Forecast – December 2023**

The following information represents the Financial Forecast as of December 31, 2023, compiled using the forecasts provided by departments for Period 6.

Departments are required to provide a forecast for the fiscal year ending June 30, 2024. Working closely with Finance and Risk Management (Finance), the departments review actual expenditures and revenues posted during the month, identify trends or significant changes in their line of business, and then forecast year-end amounts.

Fund Balance Reserve

Board Policy D 22.14 General Fund - Fund Balance established that 17% of the previous year's General Fund audited operating expenditures are to be set aside as an unrestricted General Fund reserve. Although audited financial statements will not be available until March, Finance has projected the General Fund expenditures for Period 15 of FY 2022/23 to be \$607 million. This figure represents an increase from the preceding year, necessitating an adjustment in the General Fund reserve from \$93 million to \$103 million. This revised estimate will be utilized until the audited financial statements become available.

General Fund Revenues

General Fund Revenues are comprised of three main sources: local property tax revenues, State and Federal revenues, and General Fund Departmental Revenues. As of Period 6, General Fund Revenues are projected to exceed the budgeted amount by approximately \$1.2 million.

Property Tax Revenues

Property tax revenues are comprised of three different categories: Real Property Taxes, Personal Property Taxes, and interest and penalties on delinquent taxes. Below is a table that lists the different types of property taxes and the current forecast as of December 31, 2023. You will note there is a decrease in Real Property Taxes. Southwest Gas reached a settlement with the State tax court that reduced the assessed value of their property, thereby lowering the taxes due. This settlement impacts both Tax Years 2022 and 2023.

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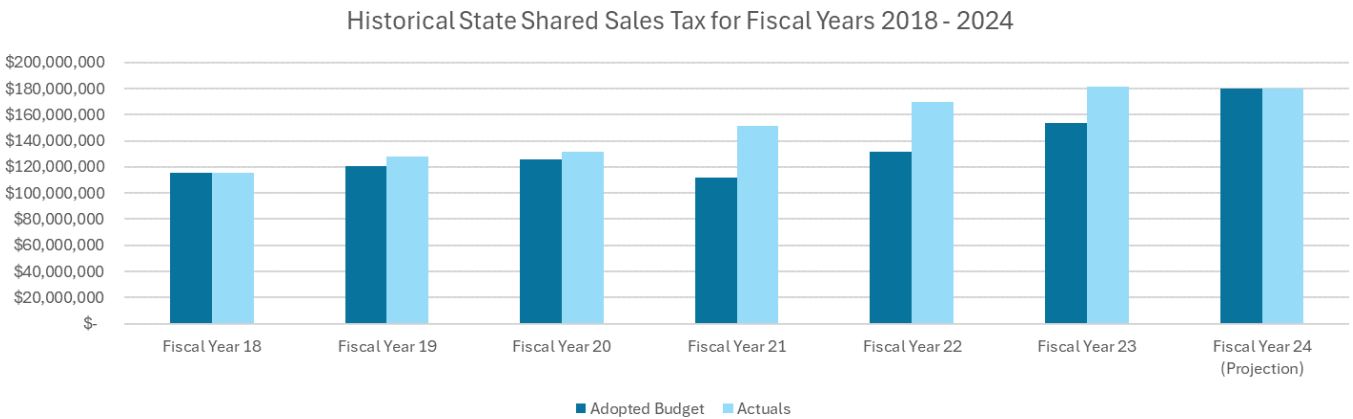
Fiscal Year 2023/24 Adopted Budget, Year to Date Actual, Forecasted Amounts for the Property Tax Revenues					
			Year-to-Date	FY 23/24	
		FY 23/24 BUDGET	ACTUAL	PROJECTED	VARIANCE
Real Property Taxes		405,546,477	225,870,975	404,500,000	(1,046,477)
Delinquent Real Property Taxes		5,462,000	2,312,353	4,639,000	(823,000)
Personal Property Taxes		12,932,989	8,412,007	12,932,989	-
Delinquent Personal Property Taxes		326,000	152,140	326,000	-
Interest and Penalties on Delinquent Property Taxes		5,370,000	2,341,228	5,670,000	300,000
		\$ 429,637,466	\$ 239,088,703	\$ 428,067,989	\$ (1,569,477)

State, Federal, and Other Non-Departmental Revenues

The Non-Departmental Revenues are a composite of various General Government Revenues that are not associated with an individual department. Below is a table that lists the types of revenues as of December 31, 2023. Given the continued increase in interest rates, the County is earning more interest income than anticipated.

Fiscal Year 2023/24 Adopted Budget, Year to Date Actual, Forecasted Amounts for the State and Federal Revenues					
			Year-to-Date	FY 23/24	
		FY 23/24 BUDGET	ACTUAL	PROJECTED	VARIANCE
State Shared Sales Tax		180,000,000	76,094,091	180,000,000	-
Vehicle License Tax		35,000,000	15,731,381	35,000,000	-
Overhead General Fund		15,851,403	7,925,700	15,851,403	-
Pooled Investment Interest Revenue		4,500,000	2,682,720	6,000,000	1,500,000
Federal In Lieu Payment		4,272,000	-	4,398,000	126,000
Transient Lodging Excise Tax (Stadium)		3,641,400	1,282,195	3,641,400	-
General Government Fees		1,625,558	801,647	1,625,558	-
Business Licenses & Permits		3,300,000	1,632,917	3,300,000	-
Alcoholic Beverage Tax		60,000	18,000	60,000	-
City In Lieu Payment		60,000	(51,908)	60,000	-
Other Miscellaneous Revenue		2,000	4,008	5,000	3,000
Overages & Shortages		(6,000)	(281)	(6,000)	-
		\$ 248,306,361	\$ 106,120,470	\$ 249,935,361	\$ 1,629,000

State Shared Sales Tax comprises more than 25% of the Total Revenue received by the County's General Fund and is the second largest revenue stream after Property Taxes. The graphic below shows the extraordinary growth in State Shared Sales Taxes since FY 2018, growing from \$115 M in FY 2018 to a projected \$180 M in FY 2024. This growth represents an approximately 56% increase in this revenue stream. However, the Arizona Department of Revenue is currently forecasting relatively flat growth in the coming years.



General Fund Departmental Revenues

General Fund Departmental Revenues are usually fees earned by the department through departmental activities. These activities vary by department but include things such as licenses and permits, charges for services, fines and forfeitures, and rental property income. Below is a table detailing the departments that generate the majority of the Departmental Revenues as of December 31, 2023.

Fiscal Year 2023/24 Adopted Budget, Year to Date Actual, Forecasted Amounts for the Departmental Revenue					
		FY 23/24 BUDGET	Year-to-Date ACTUAL	FY 23/24 PROJECTED	VARIANCE
Sheriff		8,246,160	3,903,811	8,248,857	2,697
Justice Courts Tucson		5,427,666	2,436,156	5,427,666	-
Recorder		4,250,000	1,975,138	4,250,000	-
Clerk of the Superior Court		1,763,453	685,597	1,763,453	-
Real Property Services		1,518,665	1,292,454	1,528,214	9,549
Medical Examiner		1,414,500	807,822	1,615,645	201,145
Public Defense Services		1,379,190	648,027	1,296,221	(82,969)
Facilities Management		1,411,624	945,812	1,502,192	90,568
Pima Animal Care		1,214,425	702,134	1,300,863	86,438
Information Technology		732,164	675,763	732,247	83
Elections		603,000	298,015	900,296	297,296
		\$ 27,960,847	\$ 14,370,729	\$ 28,565,654	\$ 604,807

General Fund Operating Transfers In and Transfers Out

Several types of Operating Transfers are recorded within the budget. Transfers In to the General Fund are payments made by other departments for services performed by Departments within the General Fund. The transfers received are primarily reimbursements from grants that allow for the recovery of indirect costs. Transfers In are reflected as revenue to the General Fund in the forecast. The County budgeted approximately \$5.1 million in Transfers In and is now projecting to receive \$5.2 million as of Period 6.

Transfers Out from the General Fund fall into three categories: Capital Projects, Debt Service, and General Fund Support to Non-General Fund Departments. Transfers Out are reflected in the forecast as expenditures by the General Fund. The County budgeted \$124.7 million in Operating Transfers Out and is currently projecting to spend approximately \$126.2 million as of Period 6.

Fiscal Year 2023/24 Adopted Budget, Year to Date Actual, Forecasted Amounts for the Operating Transfers Out				
	FY 23/24 BUDGET	Year-to-Date ACTUAL	FY 23/24 PROJECTED	VARIANCE
Transfers Out to Capital Projects	28,891,054	17,817,357	30,025,044	1,133,990
Transfers Out for Debt Service	60,391,993	29,545,818	60,391,993	-
Transfers Out to Support Non-General Fund Departments	35,454,238	20,173,081	36,085,758	631,520
	\$ 124,737,285	\$ 67,536,257	\$ 126,502,795	\$ 1,765,510

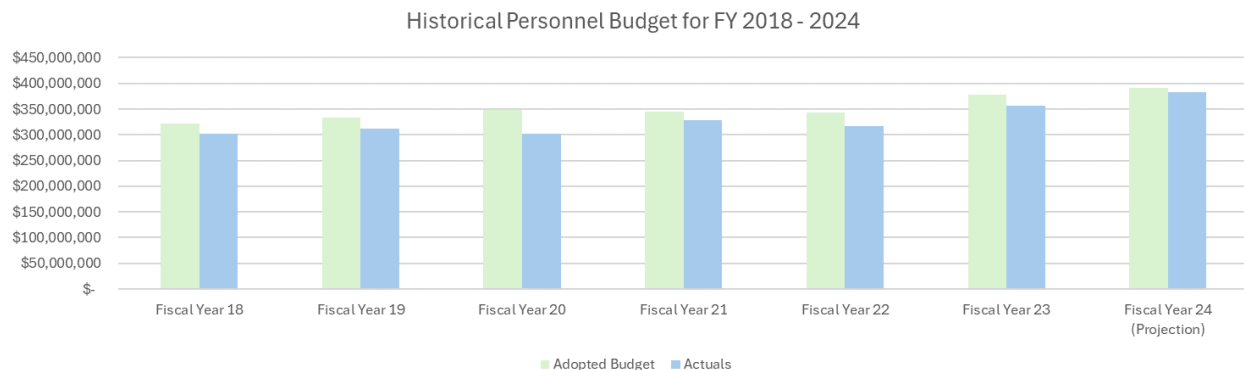
General Fund Expenditures

The General Fund's high-level Period 6 Forecast is outlined below. The initial General Fund Balance is derived from Period 15 data for FY 2022/23, with audited financial statements anticipated by March for that fiscal year. Based on this estimate from Period 15, there is an increase in the available fund balance as of June 30, 2023.

Fiscal Year 2023/24 Adopted Budget, Year to Date Actual, Forecasted Amounts for the General Fund				
As of December Period 6				
Fund Balance Summary	Adopted	Year To Date	Forecasted	Variance
Beginning General Fund Balance	\$ 159,448,967	\$ 168,070,593	\$ 168,070,593	\$ 8,621,626
Revenues				
General Fund Revenues	715,310,722	364,557,677	716,470,969	1,160,247
Operating Transfers In	5,082,815	595,892	5,120,067	37,252
Total Revenues	720,393,537	365,153,569	721,591,036	1,197,499
Expenditures				
Operating Expenditures	662,032,001	305,561,165	660,595,354	1,436,647
Operating Transfers Out	124,737,285	67,536,257	126,502,795	(1,765,510)
Reserve	93,073,218	-	-	93,073,218
Emergency Reserve		-	-	-
Total Expenditures	879,842,504	373,097,422	787,098,149	92,744,355
Ending Fund Balance	-	160,126,740	102,563,480	102,563,480
Unrestricted General Fund Reserve			102,563,480	
Unrestricted General Fund Balance - per NEW Board Policy				Over/Under
Minimum 17% of Expenditures			\$ 103,226,694	\$ (663,214)
Items included in the FY 2024/25 Adopted Budget				
Available Unrestricted General Fund Balance after Adjustments				\$ (663,214)

Finance works with all the departments within the County to create the monthly forecasts. As part of this iterative process, each department has unique circumstances that are taken into consideration. These factors can change on a month-to-month basis.

One of the most difficult areas for projections continues to be Personnel Services. The County has had between 900 and 1,000 vacant positions for the past several years. The General Fund accounts for approximately one-half of those positions. While the exact positions change, these statistics have remained relatively constant. The vast majority of these positions are fully funded in the budget. Projecting when a position will be filled and calculating the amount of vacancy savings that would be realized prior to filling that position present significant challenges. The graphic below shows the difference between Budgeted Personnel Costs and Actuals or Projected Costs for the General Fund for the past several years.



Personnel Vacancy Savings for FY 2018 - 2024

Personnel Budget	Adopted Budget	Actuals	Vacancy Savings
Fiscal Year 18	\$ 322,282,703	\$ 302,932,086	\$ 19,350,617
Fiscal Year 19	334,104,424	312,577,968	21,526,456
Fiscal Year 20	347,632,404	302,922,585	44,709,819
Fiscal Year 21	344,753,937	328,679,599	16,074,338
Fiscal Year 22	343,182,167	317,384,301	25,797,866
Fiscal Year 23	377,874,022	356,073,839	21,800,183
Fiscal Year 24 (Projection)	390,920,764	383,680,861	7,239,903

As noted in the charts above, significant personnel vacancy savings have been realized over the past several years. In an effort to allocate resources more appropriately, the County has used a number of methods to try to mitigate this budgetary issue. They include budgeting for two months of vacancy savings as part of the Adopted Budget, performing vacancy savings sweeps during the year, and eliminating positions that have remained vacant for more than 365 days. Despite these efforts, the Personnel Services forecast continues to be an ongoing challenge.

The following departments are forecasted to be over budget on June 30, 2024, by the amounts provided below.

Facilities Management:

Period 6: \$286,718 – Over Budget

- Most of this increase is due to the increases in TEP rates. The budget for Facilities Management was increased by \$537,867 to adjust for increases in inflations for the first half of the fiscal year. Finance continues to monitor these costs and will provide a recommendation for another budget adjustment in May.

Sheriff's Department:

Period 6: \$4,498,557 – Over Budget

- Most of this overage is in personnel services, with \$3.6 million in overtime. If this trend holds, this would be a significant decrease in overtime from FY 2022/23, which was \$9.7 million. The Sheriff's Office has implemented strategies to monitor overtime use and established several academies to hire additional Corrections Officers.
- Supplies are forecasted to be over by \$900,000. The budget for the Sheriff's Department was increased by \$550,700 to address inflationary increases in electricity, fuel, and food. Finance continues to monitor these costs and will provide a recommendation for another budget adjustment in May.

Public Defense Services (PDS):

Period 6: \$1,024,157 – Over Budget

- Contract attorneys in the Office of Court Appointed Council are projected to be \$2.9 million over budget due to persistent heightened caseloads. This is partially offset by a reduction in projected personnel costs in the Public Defender program.

Superior Court (SC):

Period 6: \$542,820 – Over Budget

- The overage is primarily due to increasing software licensing costs and required out-of-state travel. The Superior Court is in the process of finalizing its remediation plan to address this overage.

Non-General Fund Expenses

The following departments/funds are forecasted to be over budget on June 30, 2024.
Human Resources - Health Benefits Trust:

Period 6: \$3,976,345 – Over Budget

- Similar to the trend observed in FY 2022/23, there is a continual increase in medical and pharmacy claims, surpassing initial estimates. At the December 5, 2023, Board of Supervisors meeting, the Board approved the medical and dental insurance premiums for FY 2024/25. These approved premiums included increases to address the upward trend in medical and pharmacy claims and the shortfall in reserves held by the Trust.

ITD - Enterprise Software:

Period 6: \$1,841,160 – Over Budget

- The annual cost of the Microsoft Enterprise licensing has increased. Additionally, the educational discounts afforded to the Library were discontinued. Subscription costs for all modules of the new ERP were not included in this department's FY 2023/24 Budget.

Non-General Fund Revenues

Transportation:

Period 6: \$2,378,624 – Under Budget

- Due to a reduced forecast by The Arizona Department of Transportation for its Highway User Revenue Fund collections, the department is projecting a \$2.3 million revenue shortfall. Transportation has identified areas to reduce costs and continues to assess the implications of this on their service delivery in areas other than the Pavement Preservation Program.

Budget Remediation Plans

Board of Supervisors (BOS) Policy [D22.2 – Budget Accountability](#) requires departments projecting expenditures to exceed their Appropriated Budget or projecting revenues under their Appropriated Budget for the fiscal year to develop and implement a budget remediation plan immediately.

The Honorable Chair and Members, Pima County Board of Supervisors
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In conjunction with the remediation plans previously provided and my communication regarding fiscal responsibility for the remainder of this fiscal year, Finance will continue to work with Departments and provide updated remediation plans in March.

JKL/je

c: Carmine DeBonis, Jr., Deputy County Administrator
Francisco García, MD, MPH, Deputy County Administrator & Chief Medical Officer
Steve Holmes, Deputy County Administrator
Ellen Moulton, Director, Finance and Risk Management
Andy Welch, Deputy Director, Finance and Risk Management