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# MEMORANDUM

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Date: March 7, 2024

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

From: Jan Leshner   
County Administrator

Re: **Financial Forecast – January 2024**

The following information represents the Financial Forecast as of January 31, 2024, compiled using the forecasts provided by departments for Period 7.

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. The Annual Comprehensive Financial Report for the County was published on February 29, 2024. The audited General Fund expenditures for FY 2022/23 were \$611 million. This figure represents an increase from the preceding year, necessitating an adjustment in the General Fund reserve from \$93 million to \$104 million.

## **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 7, General Fund Revenues are projected to exceed the budgeted amount by approximately \$10.9 million. This increase is primarily due to the Arizona Long Term Care System (ALTCS) refund of \$6.6 million and a slight increase in the State Shares Sales Tax projection.

## **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 January 31, 2024. 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 impacted 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	233,558,442	404,500,000	(1,046,477)
Delinquent Real Property Taxes		5,462,000	2,828,983	4,639,000	(823,000)
Personal Property Taxes		12,932,989	8,894,328	12,932,989	-
Delinquent Personal Property Taxes		326,000	172,514	326,000	-
Interest and Penalties on Delinquent Property Taxes		5,370,000	2,796,908	5,670,000	300,000
		\$ 429,637,466	\$ 248,251,175	\$ 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 January 31, 2024. Finance is projecting a slight increase, \$3 million, in State Shared Sales Taxes.

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	88,848,173	183,000,000	3,000,000
Vehicle License Tax		35,000,000	18,109,876	35,000,000	-
Overhead General Fund		15,851,403	9,246,650	15,851,403	-
Pooled Investment Interest Revenue		4,500,000	3,411,102	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	1,718,558	3,641,400	-
General Government Fees		1,625,558	963,798	1,625,558	-
Business Licenses & Permits		3,300,000	1,633,612	3,300,000	-
Alcoholic Beverage Tax		60,000	24,000	60,000	-
City In Lieu Payment		60,000	(51,908)	60,000	-
Other Miscellaneous Revenue		2,000	4,110	5,000	3,000
Overages & Shortages		(6,000)	(258)	(6,000)	-
		\$ 248,306,361	\$ 123,907,713	\$ 252,935,361	\$ 4,629,000

### General Fund Departmental Revenues

General Fund Departmental Revenues are fees earned by the departments 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 January 31, 2024. The ALTCS refund is shown under the Finance – Mandated Payments.

<b>Fiscal Year 2023/24 Adopted Budget, Year to Date Actual, Forecasted Amounts for the Departmental Revenue</b>					
			<b>Year-to-Date</b>	<b>FY 23/24</b>	
		<b>FY 23/24 BUDGET</b>	<b>ACTUAL</b>	<b>PROJECTED</b>	<b>VARIANCE</b>
Sheriff		8,246,160	4,861,293	8,248,857	2,697
Justice Courts Tucson		5,427,666	2,945,491	5,338,560	(89,106)
Recorder		4,250,000	2,251,917	4,250,000	-
Clerk of the Superior Court		1,763,453	978,333	1,763,453	-
Real Property Services		1,518,665	1,419,717	1,528,214	9,549
Medical Examiner		1,414,500	1,031,131	1,618,540	204,040
Public Defense Services		1,379,190	726,974	1,299,221	(79,969)
Facilities Management		1,411,624	1,088,768	1,560,335	148,711
Pima Animal Care		1,214,425	833,269	1,258,100	43,675
Information Technology		732,164	695,147	732,247	83
Elections		603,000	298,446	900,596	297,596
Finance - Mandated Payments		-	6,607,633	6,607,633	6,607,633
		<b>\$ 27,960,847</b>	<b>\$ 23,738,119</b>	<b>\$ 35,105,756</b>	<b>\$ 7,144,909</b>

### **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 projecting to receive \$5.1 million as of Period 7.

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 \$126.6 Million as of Period 7.

<b>Fiscal Year 2023/24 Adopted Budget, Year to Date Actual, Forecasted Amounts for the Operating Transfers Out</b>					
			<b>Year-to-Date</b>	<b>FY 23/24</b>	
		<b>FY 23/24 BUDGET</b>	<b>ACTUAL</b>	<b>PROJECTED</b>	<b>VARIANCE</b>
Transfers Out to Capital Projects		28,891,054	18,356,453	30,147,296	1,256,242
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	20,655,376	36,085,758	631,520
		<b>\$ 124,737,285</b>	<b>\$ 68,557,647</b>	<b>\$ 126,625,047</b>	<b>\$ 1,887,762</b>

**General Fund Expenditures**

The General Fund's high-level Period 7 Forecast is outlined below.

Fiscal Year 2023/24 Adopted Budget, Year to Date Actual, Forecasted Amounts for the General Fund				
As of January 2024 - Period 7				
Fund Balance Summary	Adopted	Year To Date	Forecasted	Variance
<b>Beginning General Fund Balance</b>	\$ 159,448,967	\$ 168,070,593	\$ 168,070,593	\$ 8,621,626
<b>Revenues</b>				
General Fund Revenues	715,310,722	401,996,940	726,207,746	10,897,024
Operating Transfers In	5,082,815	944,417	5,120,067	37,252
<b>Total Revenues</b>	<b>720,393,537</b>	<b>402,941,357</b>	<b>731,327,813</b>	<b>10,934,276</b>
<b>Expenditures</b>				
Operating Expenditures	662,032,001	362,268,939	662,110,797	(78,796)
Operating Transfers Out	124,737,285	68,557,647	126,625,047	(1,887,762)
Reserve	93,073,218	-	-	93,073,218
Emergency Reserve		-	-	-
<b>Total Expenditures</b>	<b>879,842,504</b>	<b>430,826,586</b>	<b>788,735,844</b>	<b>91,106,660</b>
<b>Ending Fund Balance</b>	<b>-</b>	<b>140,185,364</b>	<b>110,662,562</b>	<b>110,662,562</b>
<b>Unrestricted General Fund Reserve</b>			110,662,562	
Unrestricted General Fund Balance - per NEW Board Policy				Over/Under
Minimum 17% of Expenditures			\$ 103,957,466	\$ 6,705,096
<b>Items included in the FY 2024/25 Adopted Budget</b>				
<b>Available Unrestricted General Fund Balance after Adjustments</b>			<b>\$</b>	<b>6,705,096</b>

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.

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.

Sheriff's Department:

Period 7: \$4,031,955 – Over Budget

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- Most of this overage, \$3.2 million, is in personnel services with the majority in overtime. If this trend holds, this would be a significant decrease in overtime paid from FY 2022/23, which was \$9.7 million to approximately \$5.3 million.
- Supplies are forecasted to be over \$800,000. 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 7: \$2,607,687 – Over Budget

- Contract attorneys in the Office of Court Appointed Council are projected to be \$3 million over budget due to persistent heightened caseloads. This is partially offset by a reduction in projected personnel costs in the Public Defender program. The Department has over 30 vacant positions and is working with Finance to eliminate several of these positions to mitigate the budget overage.

Superior Court (SC):

Period 7: \$597,899 – Over Budget

- The overage is primarily due to increasing software licensing costs and required out-of-state travel.

Facilities Management:

Period 7: \$473,610 – Over Budget

- Most of this increase is due to the increases in TEP rates and other utilities. 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.

### **Non-General Fund Expenses**

The following departments/funds are forecasted to be over budget on June 30, 2024.

Human Resources - Health Benefits Trust:

Period 7: \$2,408,631 – Over Budget

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- 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 7: \$1,885,154 – 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.

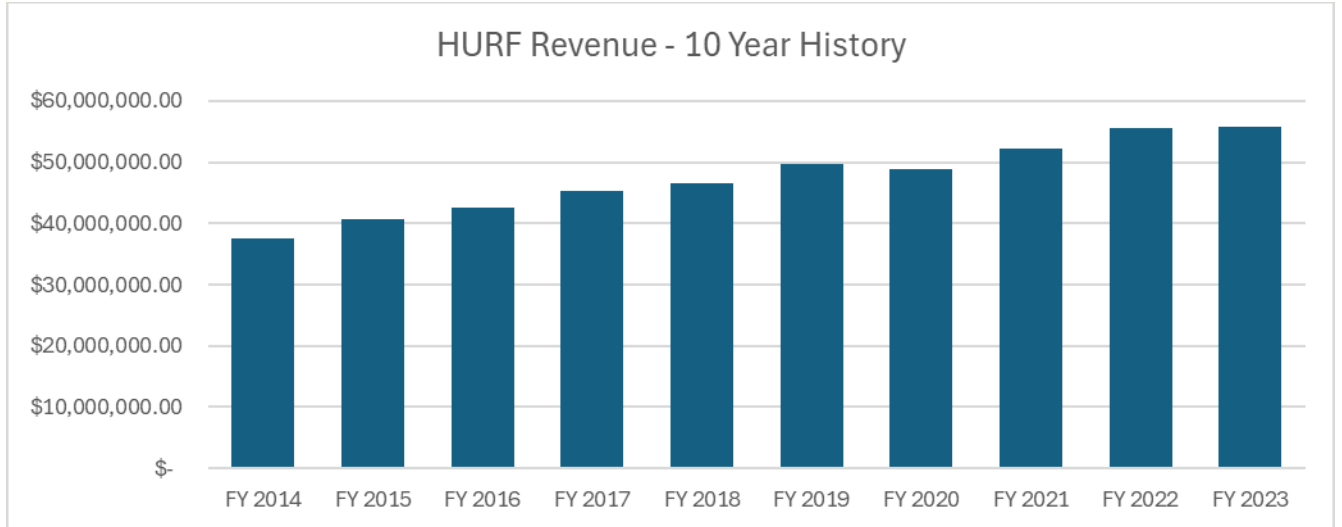
### **Non-General Fund Revenues**

Transportation:

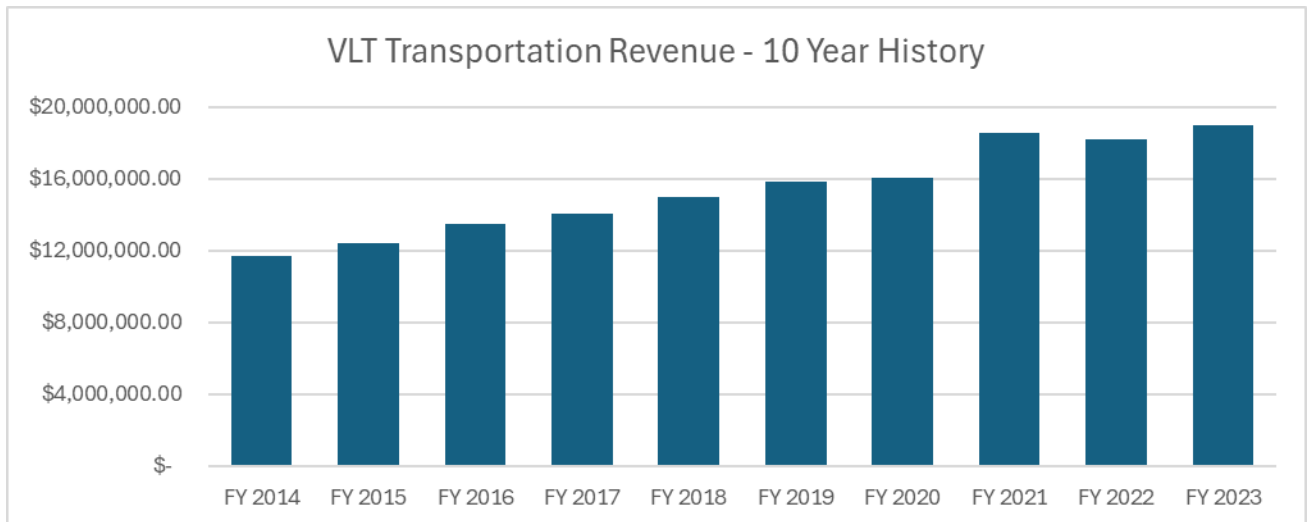
Period 7: \$2,197,567 – Under Budget for Revenue

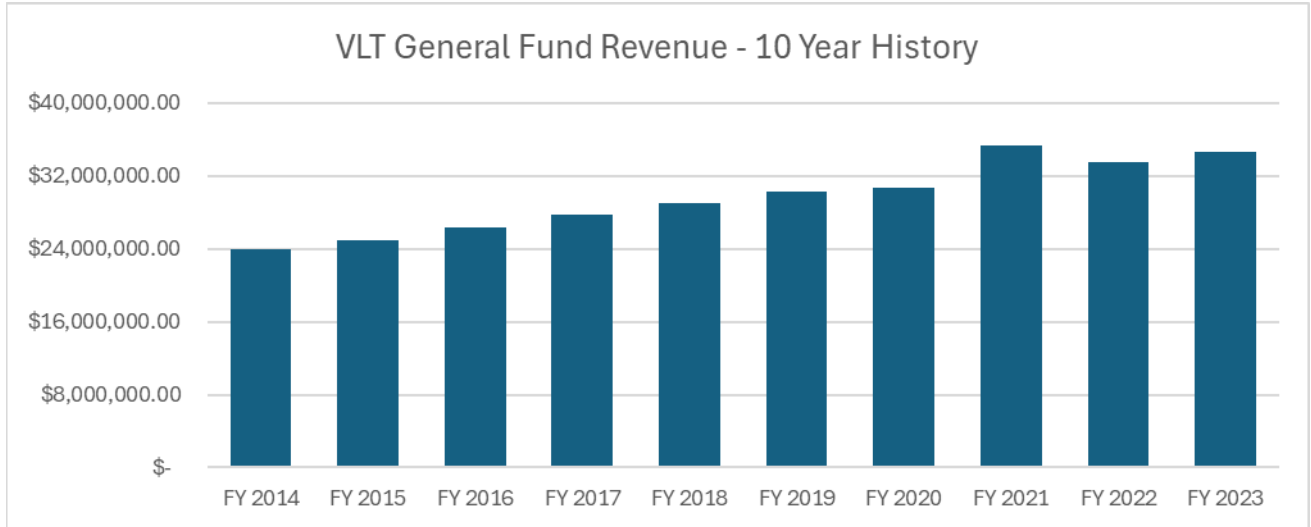
- Due to a reduced forecast by The Arizona Department of Transportation for its Highway User Revenue Fund collections, the department is projecting a \$2.2 million revenue shortfall. Transportation has identified areas to reduce costs and continues to assess the implications of this on their service delivery in areas other than the Pavement Preservation Program.

During the February 20, 2024 Board meeting, a request was made to review Highway User Revenue Fund (HURF) as well as the Vehicle License Tax Revenue (VLT). HURF revenues flow directly to the Transportation Department. Below is a graphic showing the previous 10 years of HURF revenues received by the County. During this time period, HURF revenues have increased approximately \$18 million, roughly 49%.



Vehicle License Tax revenue is split between the General Fund and the Transportation Department. VLT revenues have also increased approximately \$18 million over the past 10 years. The graphs below detail the history for both components of VLT.





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- 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