AGENDA MATERIAL
DATE 4/1/25 ITEM NO. RA14

MEMORANDUM

Date: March 31, 2025

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

From: Jan Lesher
County Administrator

Re: **Pay-As-You-Go Program Overview for Fiscal Year 2025/26 Budget**

In November of 2019, the Board of Supervisors (BOS) approved BOS Policy D 22.12 – General Fund Capital Improvement Fund Pay-As-You-Go Program. The intent of this policy was to gradually shift from general obligation bond-based funding to a more sustainable, tax-supported model for infrastructure investment. Since its adoption, this policy has been incorporated into the County's annual budget process. The policy establishes the County's approach to funding capital improvement projects and road repairs through a Pay-As-You-Go (PAYGO) model, utilizing revenues from primary property tax levies. The County allocates funds from the General Fund through a dedicated Capital Improvement Fund, rather than relying on voter-approved general obligation bonds.

As prescribed in this policy, the annual primary property tax levy includes a PAYGO component derived from 60 percent of the cumulative decrease in the secondary property tax rate for debt service as general obligation bond debt declines, and 60 percent of the increase in the primary property tax base, which reflects the growth in taxable net assessed property value. These amounts are combined to determine the total PAYGO levy each year. The funds are transferred to the Capital Improvement Fund for infrastructure projects and projects that are proposed to be funded with the PAYGO revenues are included in the annual budget process and Recommended Budget.

Since its inception, the PAYGO program has generated over $161 million in capital improvement funding through Fiscal Year (FY) 2024/25. These funds have been used to support the Transportation Department's Pavement Preservation Program and other major projects such as the Sheriff's Department aircraft hangar, the closure of the Ina Landfill, well replacement at Southeast Regional Park, and LED lighting upgrades at Mike Jacobs Sports Park, Thomas Jay Regional Park, and McDonald Regional Park.

The PAYGO levy for the upcoming FY 2025/26 budget is projected to generate $53,232,766 in revenue. Each year during the budget process, the Board has raised questions about the potential impact of adjusting the current 60/60 scenario used to calculate the PAYGO levy to a 70/70 or 80/80 scenario, in order to determine the additional revenue that could be generated. A key consideration when evaluating changes to this ratio is the effect on the tax rate. Increasing to a 70/70 or 80/80 scenario would also result in a higher tax rate. The table below presents the 60/60 scenario for the current year and compares the proposed estimated tax levy and tax rate for FY 2025/26 under the 60/60 scenario with the 70/70 and 80/80 scenarios. It also outlines the increases in the tax levy and tax rate for these alternative scenarios. **Please note that the levies and rates shown below are specific to the PAYGO calculation and do not include the required $0.0950 increase to the tax levy for State Cost Shifts or any amounts for supplemental requests.**

Scenario	60/60 FY 24/25	60/60 FY25/26 Est	70/70 FY25/26 Est	80/80 FY25/26 Est
Total NON PAYGO Levy	$ 409,574,170	$ 430,904,362	$ 432,994,469	$ 435,072,767
Total PAYGO Levy	$ 51,748,242	$ 53,232,766	$ 55,440,958	$ 57,637,341
Total Primary Levy	$ 461,322,412	$ 484,137,128	$ 488,435,427	$ 492,710,108
Total NON PAYGO Tax Rate	$ 3.6392	$ 3.6491	$ 3.6668	$ 3.6844
Total PAYGO Tax Rate	$ 0.4598	$ 0.4508	$ 0.4695	$ 0.4881
Total Primary Tax Rate	$ 4.0990	$ 4.0999	$ 4.1363	$ 4.1725

Variance with 60/60 Scenario

	70/70	80/80
Additional NON PAYGO Levy	$ 2,090,107	$ 4,168,405
Additional PAYGO Levy	$ 2,208,192	$ 4,404,575
Additional Total Primary Levy	$ 4,298,299	$ 8,572,980
Additional NON PAYGO Tax Rate	$ 0.0177	$ 0.0353
Additional PAYGO Tax Rate	$ 0.0187	$ 0.0373
Additional Total Primary Tax Rate	$ 0.0364	$ 0.0726

As noted above, changing to a 70/70 or 80/80 scenario would generate an additional $2.2 million and $4.4 million respectively in PAYGO revenue. It would also generate an additional $2.1 million and $4.2 million respectively in non-PAYGO revenues. These scenarios also result in an increase to the total tax rate of $0.0364 for the 70/70 scenario and $0.0726 for the 80/80 scenario.

This topic will be addressed as part of the overall budget development agenda item for the upcoming BOS meeting on Tuesday, April 1, 2025.

JKL/anc

c: Carmine DeBonis, Jr., Deputy County Administrator
Steve Holmes, Deputy County Administrator
Art Cuaron, Director, Finance and Risk Management
Andy Welch, Deputy Director, Finance and Risk Management