# MEMORANDUM

Date: September 4, 2024

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

From: Jan Lesher
County Administrator

Re: **Pima County Housing Trust Fund – Funding Options**

At the July 2, 2024, Board of Supervisors meeting, direction was given for County staff to vet initial options, including the pros, cons, and legal requirements for a dedicated funding source, or sources, to achieve annual revenues of at least $10 million per year for affordable housing development and preservation starting in FY2026.

In preparation of this report, staff conferred with Finance and Risk Management, Pima County Attorney's Office, reviewed previously published research and staff analysis on options and preemptions to affordable housing and relevant Arizona Revised Statutes.

Table 1 contains a general overview of revenue options for counties as allowed by current Arizona State Statutes.

**Table 1. Revenue Options for Arizona Counties**

| Revenue Options for Arizona Counties | | | | |
|---|---|---|---|---|
| **Revenue Options** | **Process** | **Implementation** | **Rate** | **Current Estimated Annual Revenue (2024)** |
| General Fund Primary Property Tax | Majority BOS Approval | Primary property tax paid by county residents. | For every one cent increase in the primary tax rate raises ~$1.1 million | Determined by the BOS through the annual budget process |
| General Sales Tax | Unanimous BOS Approval | Taxable sales County-wide – paid by residents and visitors | Max. ½-cent Sales Tax | ~ $109 to $124 million annually |
| General Obligation Bonds | Voter Approval after a majority of the BOS calls a bond election | Secondary property tax paid by county taxpayers (residents and businesses). | Determined by a bond committee and the BOS | |

**Review of Eligible Options for Source or Sources of Dedicated Funding**

General Fund Primary Property Tax

The Board, by a majority vote, can approve a myriad of funding scenarios, such as an increase in the primary property tax, a decrease in other general fund categories, an additional $5 million from the general fund set aside from PAYGO, or a combination of these strategies that can result in $10 million from the general fund for affordable housing. A one cent increase in the primary property tax rate currently generates about $1.1 million in revenue. In FY2025, $5 million from primary property taxes has been allocated for funding affordable housing through PAYGO. To increase the annual funding to $10 million in FY2026, the Board can approve an increase of approximately 4.55 cents on the primary tax rate to net an additional estimated $5 million. As noted in the May 6, 2024, Responses to Supervisor Heinz's April 16, 2024 "Proposed FY 25 Recommended Study Session, Tax Rates" Memorandum, the current average limited assessed value of a home in Pima County is $224,081. For a home with this assessed valuation, an increase in the primary property tax rate of 4.55 cents will cost an average homeowner $10.20 more a year, or $0.85 more a month.

PAYGO

The Pay-As-You-Go Policy or PAYGO is a Board policy[1] established for determining the annual primary property tax levy for General Fund capital improvement projects and road repair. For the last two years the County's budget has included $5 million a year from PAYGO for the development and preservation of affordable housing. The Board could increase this amount to $10 million a year, with the understanding that less revenue would be available for other County capital needs.

The PAYGO policy was called out by the Affordable Housing Taskforce (Taskforce) as a model to inform the development of a funding strategy to accelerate the production and / or preservation of affordable housing as a preamble to a set of recommendations communicated to the Board in August 2022.[2] An iteration of the policy could be one informed by the forthcoming market study and housing needs assessment, which will inform on the range of housing needed, locations and estimated timeframes to meet regional production metrics or goals. Following the completion of this analysis, the Board could consider amending the PAYGO Board Policy to include a set amount per year for the development and preservation of affordable housing, similar to the language included in the Board policy for road repair, or the Board could establish a policy similar to PAYGO, wherein an annual budgetary investment is identified to support the pace and / or production of affordable housing development / units over a period of time until or until recommended benchmarks have been achieved.

[1] Board of Supervisor Policy D 22.12 "General Fund Capital Improvement Pay-As-You-Go Program"
[2] August 15, 2022, Memo to the Board re: Housing Affordability

General Obligation Bonds

The Board is authorized by State Statute[3] to call special elections for the purpose of seeking voter approval for the County to incur bonded indebtedness for a single purpose or set of purposes, which are typically related to funding design and construction of facilities and other capital improvement projects. Voter approval of general obligation bonds would authorize the County to issue (sell) general obligation bonds and repay those bonds with a secondary property tax levy. While general obligation bonds are often issued over several years in order to fund capital improvement projects, the revenue should be considered "one-time" funding, since the authorization is for a set period of time. The County would need to plan for another bond election for voters to authorize additional bond funds.

Sales Tax

Per State Statute, the Board, by way of a unanimous vote of approval, could pass a county sales tax. The formal rules for approving a county sales tax specified in A.R.S. § 42-6103 mean in practical terms that the Board could adopt up to a half cent sales tax. A Pima County half cent sales tax could generate between $109 million and $124 million in FY26 depending on the health of the economy, and between $1.1 billion and $1.4 billion in revenue over the next 10 years. Sales tax revenue would be generated from both residents and visitors. Every County in Arizona except Pima and Maricopa County have a general excise (sales) tax. While Maricopa County has a road tax and jail district tax, it does not have a general sales tax.

Based on taxable sales data from the Arizona Department of Revenue, Pima County would have generated approximately $119 million during FY2023/2024 had a ½-cent sales tax existed. This would have amounted to a little less than 7 percent of the County's total budgeted expenses for the fiscal year. In addition, the County's sales tax would be a fraction of the total sales taxes levied by the State, the Regional Transportation Authority (RTA) and cities and towns in Pima County. Combined State (5.6 percent) and RTA (0.5 percent) sales tax rates for unincorporated areas currently equal 6.1 percent. Retail sales taxes in cities and towns currently include an additional 2 percent in Sahuarita, 2.5 percent in Marana and Oro Valley, 2.6 percent in the City of Tucson and 5 percent in South Tucson. In total, sales taxes on retail items currently range from 6.1 percent in unincorporated Pima County areas to 11.1 percent in South Tucson.

Unanimous approval of the Board to adopt a sales tax does not restrict the use of sales tax revenue to a particular use, meaning the Board could direct sales tax revenue to alternate purposes or priorities other than affordable housing in future budgetary processes. The last extensive effort related to Board adoption of a sales tax was in 2018 and was unsuccessful. The proposed ordinance at that time was to restrict use of sales tax revenue to road repair, programs to increase the financial stability and health of low-income households, while also reducing the primary property tax rate. The ordinance would have detailed these uses. However, the ordinance could still have been changed by future actions of the Board.

[3] A.R.S. § 35-452 / Pima County Code 3.06 "Bonding Disclosure, Accountability and Implementation"

**Impact of Sales & Property Taxes on Low-Income Households**

Research from the 2018 examination of Board adoption of a sales tax showed that both sales taxes and property taxes tend to have regressive impacts on lower income households.[4] In 2024, the Institute on Taxation and Economic Policy, a nonprofit, nonpartisan tax policy organization, released its annual report titled "Who Pays?", which is an examination of the distribution of tax systems and ranks states from having the most regressive to least regressive tax system, meaning lower income households are paying a larger percentage of the annual income on taxes than higher income households. Figure 1 from the 2024 report represents Arizona State and local taxes as a percentage of non-elderly household income.

Sales taxes are levied at a flat rate and consume a larger share of income from lower income households than from higher income households. Because of the regressive impact of sales taxes on low-income households, the 2018 sales tax proposal considered by the Board included allocating a portion of the sales tax revenue to improving the financial stability and health of low-income households.

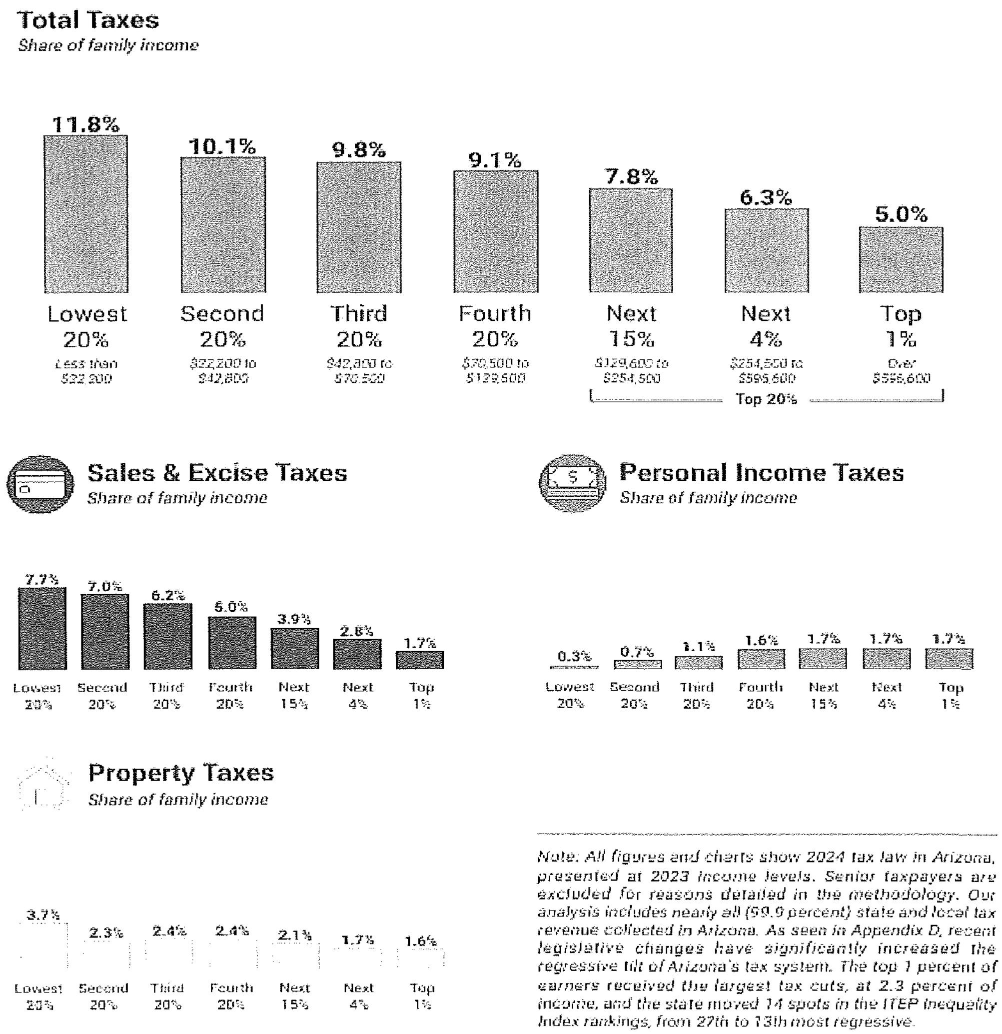
Property taxes can also have adverse impacts on lower income households, though to a lesser degree than sales taxes as the rate is set relative to the value of the home, irrespective of household income. Increases in property taxes can also have an adverse impact on low-income renters. When the property tax rate is raised on a residential rental property, the increase is typically passed through as a rent increase to renters.

While Arizona provides tax relief to offset increases in property taxes, it is limited to owners or residential rental households who are 65 or older or received Supplemental Security Income (SSI), and paid property taxes or rent on a primary residence during the taxable year.[5] Household income limits apply. Residential landlords must certify the portion of the individual's rental rate that went to pay property taxes for those who paid rent on a residential property. The tax credit does not apply to low-income housing or tax-exempt properties.

REMAINDER OF PAGE LEFT BLANK

[4] December 8, 2017, Impact of Possible Half-cent County Sales Tax on Low-Income Households
[5] Arizona Department of Revenue / Property Tax Credit

**Figure 1. Arizona State and Local Taxes in 2024 as Percentage of Family Income for Non-Elderly Taxpayers**




## Examination of Limitations to Financing Structures for Affordable Housing

During the course of reviewing an eligible source or sources of funding for affordable housing, staff reviewed state statutes and revisited previously published analyses by the Arizona State University Morrison Institute for Public Policy[6] and Arizona Coalition for Affordable Housing[7]. The collective consensus from both reports is Arizona statutes preempt the implementation of policies / strategies, as well as developing financing structures that could allow cities/towns

---

[6] ASU Morrison Institute for Public Policy, "State-Level Legal Barriers to Adopting Affordable Housing Policies in Arizona," 2022

[7] Arizona Housing Coalition, "Best Practice Toolkit for Municipalities for Increasing the Supply of Affordable Housing in Arizona," 2020

and counties to better address their affordable housing challenges. While State Statutes allow jurisdictions to assess fees for development, Statutes require that an "assessed development fee shall have a substantial nexus to the actual burdens and costs associated with providing the necessary public services or facility expansions to that development that are funded by development fees."[8] "Necessary public services" are defined in state statute as water facilities, wastewater facilities, street/road, public safety facilities, neighborhood parks, and recreational facilities. Affordable housing is not identified in statute as a "necessary public service" needed as a *result of a* development nor does statute articulate affordable housing as a *benefit to* a development. Development fees paid to the County for services are restricted to an Enterprise Fund for the purpose of funding the operations of the Development Services Department.

In terms of special taxing authority, Title 48 of the Arizona Revised Statutes currently allows for creation of over 30 special taxing districts to generate funding to pay for local jurisdictional needs or services, however, affordable housing is not identified as an allowable community need or service for which the statutes would apply.

**Pima County Housing Trust Fund**

Arizona allows county boards by resolution to establish a housing trust fund administered by either a housing trust fund board comprised of five members appointed by the Board of Supervisors or administered by the Board of Supervisors acting as the housing trust fund board.[9] Under the statute, allowable sources of funding include funds appropriated by a county Board of Supervisors and/or any private, federal, state or local government grants, gifts, appropriations and funds designated by law, and investment earnings of the fund. Eligible uses of housing trust funds are projects and programs that provide opportunities for low-income households as determined by the U.S. Department of Housing and Urban Development. Eligible projects and programs include development of affordable rental housing, property developed for sale to low-income buyers and / or rent-to-own programs. Further, statute requires prioritization of projects that provide for operating, constructing or renovating facilities for housing for low-income families, as well as projects that provide housing and shelter to families that have children.

In 2005, the Board approved an "Affordable Housing Fee" or "rooftop fee" that was assessed on new home construction specifically to generate funds for the "County Housing Trust Fund". In 2013, the County Attorney's office advised discontinued collection of the fee following U.S. Supreme Court *Koontz vs. St. Johns River Water Management District* decision, advising the fee extraction for affordable housing as unconstitutional.[10] No other funding has since been designated or contributed to the County Housing Trust Fund.

Should the Board determine that future fiscal year appropriations for affordable housing should be appropriated to a dedicated housing trust fund, a new fund should be established

---

[8] A.R.S. § 11-1102(H)(2)
[9] A.R.S. § 11-381
[10] July 23, 2013 Memorandum from Chief Civil Deputy County Attorney Christopher Straub and Deputy County Attorney Regina Nassen Regarding Koontz v. St. Johns River Water Management District

aligned with allowable awarding activities as allowed under statute. The process by which the fund would collect contributions, gifts and/or grants would require further analysis to inform the development of administrative policies associated with its administration, including the handling of contributions or gifts. As with current programming efforts, future strategies to address affordable housing needs would need to consider housing trust fund limitations to ensure funding distribution was complaint with state statute.

**Summary**

The report provides a high-level overview of the available and statutorily allowable options for the Board to consider as potential source or sources of dedicated funding for affordable housing. The Board's consideration or direction on one or more of these funding structures may require further analysis to more accurately assess the associated "pro" and / or "con" as the as preparations are made for the County FY2026 budget. Each of the revenue options discussed above are considered locally generated revenues and as a such a detailed examination of how the spending of these revenue streams could be limited due to the Expenditure Limitation statutes and Constitutional provisions.

JKL/dym

c: Carmine DeBonis, Jr., Deputy County Administrator
Francisco García, MD, MPH, Deputy County Administrator & Chief Medical Officer
Steve Holmes, Deputy County Administrator
Jenifer Darland, Director, Office of Housing Opportunities & Homeless Solutions
Ellen Moulton, Director, Finance & Risk Management
Sam Brown, Chief Civil Deputy, Pima County Attorney's Office