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Pima County Board of Supervisors

To: Melissa Manriquez, Clerk of the Board

From: Dr. Matt Heinz, Supervisor, District 2

Date: April 28, 2022

RE: BOS Agenda 05/03/22 – State Cost Shifts, BOS Policy

A handwritten signature in dark ink, appearing to be "MH", with a long, sweeping underline that extends to the right.

Please add this item to the addendum agenda for 05/03/22. Thank you.

Board of Supervisors:

Discussion/Direction/Action: Directing the County Administrator and county staff to implement **BOS Policy D 22.13, General Fund Neutralization of State Legislature Cost Shifts and Disclosure of these Cost Shifts to Taxpayers**, in the Recommended County Budget for FY23.

Cc: Jan Leshar, County Administrator
Michelle Campagne, Director, Finance and Risk Management
Andrew Welch, Deputy Director, Finance and Risk Management
Xavier Rendon, Budget Manager, Finance and Risk Management

Encl: **BOS Policy D 22.13 – Gen Fund Neutralization of State Legislature Cost Shifts and Disclosure of these Cost Shifts to Taxpayers**

County Administrator's 2/15/22 Memo, annotated: State Cost Shift Increases and the Need to Adjust Property Tax Rates for the Fiscal Year 2022/23 Recommended Budget

County Administrator's 4/15/22 Memo, annotated: Property Tax Scenarios for Fiscal Year 2022/23



PIMA COUNTY, ARIZONA BOARD OF SUPERVISORS POLICY

<u>Subject:</u> General Fund Neutralization of State Legislature Cost Shifts and Disclosure of these Cost Shifts to Taxpayers	Policy Number	Page
	D 22.13	Page 1 of 1

Purpose

To establish Pima County policy for neutralizing the annual primary or secondary property tax levy for funding General Fund increased expenditures due to State Legislature Cost Shifts (Cost Shifts).

Policy

The Board of Supervisors supports the full disclosure of how Cost Shifts affect Pima County taxpayers. In order to neutralize cost shifts enacted by the State Legislature to Pima County, the primary property or secondary property tax rate, or both, will be increased by an equivalent amount in the budget year following the Cost Shift.

The primary or secondary property taxes to be levied annually will include a Cost Shifts component based on the sum of cost shifts enacted by the State Legislature during the prior year. This will be calculated by dividing the increase in Cost Shifts by the applicable year's primary property tax base (Taxable Net Assessed Value of property/ divided by \$100).

An example of this calculation is shown below for an estimate of \$1 million increase in Cost Shifts using the Fiscal Year 2021/2022 primary property tax base:

	FY 2021/22
State Legislature Cost Shift	\$ 1,000,000
Primary Net Assessed Value/100	\$ 96,961,504
Change to Primary Tax Rate	\$ 0.0103

The County Administrator shall include recommendations within the annual Recommended Budget and the Tentative Budget consistent with this policy for allocations to and expenditures from the General Fund.

The County Administrator will provide a written statement regarding the Cost Shifts in or on the property tax bill sent to Pima County taxpayers describing the amount and tax impact of the Cost Shifts.

Adoption Date: August 10, 2021
Effective Date: August 10, 2021



MEMORANDUM

Date: February 15, 2022

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

From: Jan Leshner 
Acting County Administrator

Re: **State Cost Shift Increases and the Need to Adjust Property Tax Rates for the Fiscal Year 2022/23 Recommended Budget**

On July 2, 2021, the County Administrator provided the Board of Supervisors a [memorandum](#) regarding the latest cost shifts from the State Legislature and Governor. They included the reduction of the class 1 (commercial property) assessment ratios from 18 percent to 16 percent over four years and the transfer of Arizona Department Juvenile Justice costs to Maricopa and Pima Counties.

To address these State costs shifts, the Board adopted [Board of Supervisor's Policy D 22.13, General Fund Neutralization of State Legislature Cost Shifts and Disclosure of these Cost Shifts to Taxpayers](#) on August 10, 2022. In order to comply with this policy, the Recommended Budget for FY 2022/23 will include an increase in property taxes for the following State cost shifts:

- A \$3,887,303 decrease in Pima County property tax revenues as a result of the decrease in the class 1 (commercial property) assessment ratio from 18.0% to 17.5%.
- The continuation of the \$1,726,899 transfer of Arizona Department of Juvenile Corrections costs to Pima County.

These State cost shifts total approximately \$5.6 million. Therefore, I will be asking the Board of Supervisors to increase the property tax rate by about 5.54 cents over the projected tax rate based on tax base growth and continued implementation of the present PAY-As-You-Go (PAYGO) structure.

The policy also requires that Pima County property taxpayers be advised in writing at the time the property tax bill is transmitted to them of the State cost transfers that will result in higher Pima County property tax rates. We will comply with this policy by continuing to include State cost shift information on the back of the property tax bills as we have done in the past.

Please note that these are the only State cost shifts that we have identified currently, however more are expected as we move through the State budget process. We will update you on any additional State cost shifts in our future communications regarding the recommended budget.

JKL

BOS Policy D22.13 takes into account the fact that the State is finalizing their budget at the same time as we are finalizing ours. Therefore, it specifically mandates that we neutralize cost shifts in our FY Budget based on what the Legislature did THE PREVIOUS YEAR, so there is no guessing involved. It is a hard number.

c: Michelle Campagne, Director, Finance and Risk Management

Aug 10,
2021.



MEMORANDUM

Date: April 15, 2022

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

From: Jan Leshner 
County Administrator

Re: **Property Tax Scenarios for Fiscal Year 2022/23**

During the April 5, 2022, Board of Supervisors Meeting, Supervisor Christy asked staff to provide various property tax scenarios for Fiscal Year 2022/23. Below please find the scenarios created.

Finance Tax Rate and Levy Scenario Table and Descriptions

Tax Group	<i>Adopted Budget FY 2021/22</i>	<i>Scenario 1 - Recommended Budget FY 2022/23</i>	<i>Scenario 2 - Cost Shift 1 FY 2022/23</i>	<i>Scenario 3 - Cost Shift 2 FY 2022/23</i>
General Fund Primary (including PAYGO)	\$3.8764	\$3.8901	\$3.9371	\$4.0490
Library District	0.5353	0.5453	0.5494	0.5494
Debt Service	0.4500	0.3200	0.3225	0.3225
Regional Flood Control District (RFCD)	0.3335	0.3235	0.3254	0.3254
Total	\$5.1952	\$5.0789	\$5.1344	\$5.2463

Descriptions

Scenario 1 – The property tax rates included within the current version of the Recommended Budget were calculated in accordance with [Board of Supervisor's Policy D 22.12, General Fund Capital Improvement Fund Pay-As-You-Go Program](#). This scenario continues to reduce the overall property tax rate, funds the PAYGO program and absorbs the State cost shifts. The overall \$3.8901 General Fund Primary Tax Rate consists of a \$3.5716 tax rate for general expenses and a \$0.3185 PAYGO tax rate. It also includes a \$0.0100 decrease in the Regional Flood Control District and a \$0.0100 increase in the Library District to begin to fund the Pima Early Education Program (PEEP) in future years without increasing the overall tax rate. The overall tax rate decrease is \$0.1163.

BOS Policy D 22.13 (link below) **dictates** that the BOS will **neutralize** the State Cost Shift -- **not "absorb" it** -- by increasing the County's Primary Property Tax Rate accordingly and disclosing to the taxpayers the cost shift; i.e. how much of their county primary property tax is due to "State Mandated Programs Cost" vs. due to "Pima County Local Services Cost." Current BOS Policy does not allow us to simply "absorb" this hit from the State.

The Honorable Chair and Members, Pima County Board of Supervisors
Re: **Property Tax Scenarios for Fiscal Year 2022/23**
April 15, 2022
Page 2

Scenario 2– The property tax rates included in this scenario were calculated in accordance with [Board of Supervisor's Policy D 22.12, General Fund Capital Improvement Fund Pay-As-You-Go Program, D 22.12](#) and [Board of Supervisor's Policy D 22.13 General Fund Neutralization of State Legislature Cost Shifts and Disclosure of the Cost Shifts to Taxpayers](#). This scenario includes the Scenario 1 calculation plus a provision to recoup \$5.6M in State cost shifts attributable to the reduced Class 1 assessment ratio and juvenile corrections payments to the state. This scenario was discussed in my [February 15, 2022 Memo, State Cost Shift Increases and the Need to Adjust Property Tax Rates for the Fiscal Year 2022/23 Recommended Budget](#). This scenario was not included in the Recommended Budget as we were able to continue to absorb these costs within our projected fund balance and therefore include the entire \$0.1163 tax rate reduction noted in Scenario 1. The overall net decrease in property tax rates in this scenario is \$0.0608. **D 22.13 doesn't allow for this. We must follow established BOS Policy, or amend it if that's what the majority desires.**

Scenario 3– The property tax rates included in this scenario were calculated in accordance with [Board of Supervisor's Policy D 22.12, General Fund Capital Improvement Fund Pay-As-You-Go Program, D 22.12](#) and [Board of Supervisor's Policy D 22.13 General Fund Neutralization of State Legislature Cost Shifts and Disclosure of the Cost Shifts to Taxpayers](#). This scenario includes Scenario 2 plus a provision for \$11.4 million in additional state cost shifts, which includes \$9.2 million in additional Arizona Long-Term Care System costs, \$1.5 million in Superior Court salary increases, \$0.3 million in Justice of the Peace salary increases, \$0.3 million in Arizona Department of Revenue Tax System costs, and \$0.1 million in Budget Neutrality Compliance Fund costs, for a combined total cost of approximately \$17.0 million. The overall tax rate for this scenario increases by \$0.0511. This scenario was not included in the Recommended Budget as we were able to continue to absorb these costs within our projected fund balance and therefore include the entire \$0.1163 tax rate reduction noted in Scenario 1.

Currently within the Recommended Budget, Scenario 1 is included. This scenario allows the County to continue to fund existing programs and PAYGO while absorbing the State cost shifts.

Per BOS Policy, "Scenario 2" above MUST BE the basis for the revenues and expenditures projected in the FY23 Budget.

JKL/mp

c: Carmine DeBonis, Jr., Deputy County Administrator for Public Works
Francisco García, MD, MPH, Deputy County Administrator & Chief Medical Officer,
Health and Community Services
Michelle Campagne, Director, Finance and Risk Management
Andrew Welch, Deputy Director, Finance and Risk Management
Xavier Rendon, Budget Manager, Finance and Risk Management