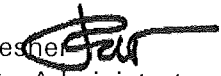




MEMORANDUM

Date: May 15, 2024

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

From: Jan Lesher 
County Administrator

Re: **Financial Forecast – March 2024**

The following information represents the Financial Forecast as of March 31, 2024, compiled using the forecasts provided by departments for Period 9.

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 March 31, 2024. The audited General Fund expenditures for FY 2022/23, applicable to the policy, were \$576 million. This figure represents an increase from the preceding year, necessitating an adjustment in the General Fund reserve from \$93 million to \$98 million, a 5.2% increase.

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 9, General Fund Revenues are projected to exceed the budgeted amount by approximately \$15.5 million or 2.16%. This increase is primarily due to the Arizona Long Term Care System (ALTCS) refund of \$6.6 million and increases in the State Shares Sales Tax of \$5.5 million and Interest Income of \$2.5 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 March 31, 2024. You will note there is a decrease in Real Property Taxes. Southwest Gas reached a

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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.

Fiscal Year 2023/24 Adopted Budget, Year to Date Actual, Forecasted Amounts for the Property Tax Revenues					
	FY 23/24 BUDGET	Year-to-Date ACTUAL	FY 23/24 PROJECTED	VARIANCE	
Real Property Taxes	405,546,477	266,209,024	404,500,000	(1,046,477)	
Delinquent Real Property Taxes	5,462,000	4,676,616	4,639,000	(823,000)	
Personal Property Taxes	12,932,989	9,971,767	12,932,989	-	
Delinquent Personal Property Taxes	326,000	200,739	326,000	-	
Interest and Penalties on Delinquent Property Taxes	5,370,000	4,642,797	5,700,000	330,000	
	\$ 429,637,466	\$ 285,700,943	\$ 428,097,989	\$ (1,539,477)	

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 March 31, 2024. Finance is projecting an increase of \$5.5 million in State Shared Sales Taxes and \$2.5 million in Interest Revenue. This is a 3.22% increase from the FY 2024 Budget. The slight decrease in Business Licenses and Permits is due to license fees from Comcast falling short of expectations.

Fiscal Year 2023/24 Adopted Budget, Year to Date Actual, Forecasted Amounts for the State and Federal Revenues					
	FY 23/24 BUDGET	Year-to-Date ACTUAL	FY 23/24 PROJECTED	VARIANCE	
State Shared Sales Tax	180,000,000	124,031,243	185,500,000	5,500,000	
Vehicle License Tax	35,000,000	24,776,414	35,000,000	-	
Overhead General Fund	15,851,403	11,888,550	15,851,403	-	
Pooled Investment Interest Revenue	4,500,000	4,427,921	7,000,000	2,500,000	
Federal In Lieu Payment	4,272,000	-	4,398,000	126,000	
Transient Lodging Excise Tax (Stadium)	3,641,400	2,400,248	3,641,400	-	
General Government Fees	1,625,558	1,266,147	1,665,558	40,000	
Business Licenses & Permits	3,300,000	2,304,139	3,130,000	(170,000)	
Alcoholic Beverage Tax	60,000	27,000	45,000	(15,000)	
City In Lieu Payment	60,000	(51,908)	60,000	-	
Other Miscellaneous Revenue	2,000	5,372	5,000	3,000	
Overages & Shortages	(6,000)	(807)	(6,000)	-	
	\$ 248,306,361	\$ 171,074,319	\$ 256,290,361	\$ 7,984,000	

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 March 31, 2024. The ALTCS refund is shown under the Finance – Mandated Payments.

Fiscal Year 2023/24 Adopted Budget, Year to Date Actual, Forecasted Amounts for the Departmental Revenue					
			Year-to-Date	FY 23/24	
		FY 23/24 BUDGET	ACTUAL	PROJECTED	VARIANCE
Sheriff		8,246,160	6,130,007	8,386,779	140,619
Justice Courts Tucson		5,427,666	3,794,648	5,423,017	(4,649)
Recorder		4,250,000	3,398,307	4,250,016	16
Clerk of the Superior Court		1,763,453	1,221,171	1,763,453	-
Real Property Services		1,518,665	1,676,371	1,806,034	287,369
Medical Examiner		1,414,500	1,227,396	1,619,110	204,610
Public Defense Services		1,379,190	873,016	1,098,172	(281,018)
Facilities Management		1,411,624	1,708,264	2,027,222	615,598
Pima Animal Care		1,214,425	1,027,465	1,267,505	53,080
Information Technology		732,164	767,827	743,143	10,979
Elections		603,000	298,883	699,171	96,171
Finance - Mandated Payments		-	6,607,633	6,607,633	6,607,633
		\$ 27,960,847	\$ 28,730,988	\$ 35,691,255	\$ 7,730,408

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 9.

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 \$124.4 Million as of Period 9.

Fiscal Year 2023/24 Adopted Budget, Year to Date Actual, Forecasted Amounts for the Operating Transfers Out				
		Year-to-Date	FY 23/24	
	FY 23/24 BUDGET	ACTUAL	PROJECTED	VARIANCE
Transfers Out to Capital Projects	28,891,054	18,250,664	28,147,296	(743,758)
Transfers Out for Debt Service	60,391,993	57,959,639	60,331,993	(60,000)
Transfers Out to Support Non-General Fund Departments	35,454,238	26,425,264	35,900,992	446,754
	\$ 124,737,285	\$ 102,635,567	\$ 124,380,281	\$ (357,004)

General Fund Expenditures

The General Fund's high-level Period 9 Forecast is outlined below.

Fiscal Year 2023/24 Adopted Budget, Year to Date Actual, Forecasted Amounts for the General Fund				
As of March 2024 - Period 9				
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	493,466,722	730,765,890	15,455,168
Operating Transfers In	5,082,815	1,663,229	5,120,067	37,252
Total Revenues	720,393,537	495,129,951	735,885,957	15,492,420
Expenditures				
Operating Expenditures	662,032,001	464,464,218	656,733,013	5,298,988
Operating Transfers Out	124,737,285	102,635,567	124,380,281	357,004
Reserve	93,073,218	-	-	93,073,218
Emergency Reserve	-	-	-	-
Total Expenditures	879,842,504	567,099,785	781,113,294	98,729,210
Ending Fund Balance	-	96,100,759	122,843,256	122,843,256
Unrestricted General Fund Reserve			122,843,256	
Unrestricted General Fund Balance - per Board Policy				Over/Under
	Minimum 17% of Expenditures		\$ 97,945,766	\$ 24,897,490
Items included in the FY 2024/25 Adopted Budget				
Available Unrestricted General Fund Balance after Adjustments				\$ 24,897,490

The Period 9 Forecast shows an increase of \$2.5 million in forecasted expenditures over the Period 8 Forecast. This increase represents a 0.38% change in the forecast. The largest increase of forecasted expenditures occurred in Public Defense Services.

Each of the departments discussed below have submitted Budget Remediation Plans to address the over budget status. The Remediation Plans are being conveyed via a separate memorandum.

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.

The following departments are forecasted to be over budget by at least \$500,000 on June 30, 2024, by the amounts provided below.

Sheriff's Department:

Period 9: \$3,491,490 – Over Budget

- Most of this overage, \$3.2 million, is in personnel services, with the majority in Overtime. This is a significant decrease in overtime paid from FY 2022/23, which was \$9.7 million to approximately \$5.3 million.

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- Finance is also requesting an allocation of Inflation Contingency to offset some of the overages in electricity, food supplies and fuel and oil in the amount of \$262,548.

Public Defense Services (PDS):

Period 9: \$3,042,650 – Over Budget

- This overage is in the contract attorneys line item. This line item has a revised budget amount of \$8.0 million, but is forecasted at \$11.8 million, or \$3.8 million over budget. Vacancy savings is slightly offsetting this overage.

Superior Court (SC):

Period 9: \$899,052 – Over Budget

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

Non-General Fund Expenses

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

Human Resources - Health Benefits Trust:

Period 9: \$716,794 – Over Budget

- The projected overage for the Health Benefit Trust has been reduced from \$2.4 million to \$716 thousand. This reduction is the result of a favorable third quarter for the Trust, marked by reduced medical claims expenses compared to the same period in the preceding two fiscal years.
- Despite this favorable quarter, there is still an expected overall increase in medical and pharmacy claims expenses moving forward into next fiscal year. 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 this upward trend in medical and pharmacy claims expenses and the shortfall in reserves held by the Trust.

ITD - Enterprise Software:

Period 9: \$1,113,784 – Over Budget

- The overage has decreased by approximately \$490,000 since the Period 8 Forecast.

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- The annual cost of the Microsoft Enterprise licensing has increased. Additionally, the educational discounts afforded to the Library were discontinued.
- These increases are offset by the delay in the Go-Live for phase 1 of Pima1, which has resulted in some costs that would have been attributed to the fund still appropriately being charged to the capital project.

RWRD – Regional Wastewater Reclamation:

Period 9: \$2,189,798 – Over Budget

- Wastewater has made two adjustments to their operational budget by reallocating a portion of the CIP budget to cover extraordinary expenditures. Approximately \$1.1 million was moved to cover the costs associated with the Class and Compensation Study. In addition, another \$1.9 million was moved to cover an emergency repair cost associated at the Tres Rios facility.
- The cost of chemicals, utilities and repairs have increased more than anticipated due to inflation.

Non-General Fund Revenues

Transportation:

Period 9: \$2,347,902 – 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.

There will be two other items on the Addendum for the May 21, 2024, Board of Supervisors meeting that are related to the Financial Update: Budget Remediation Plans Update and Recommended Uses of Inflation Contingency.

JKL/anc

c: Carmine DeBonis Jr., Deputy County Administrator
Francisco Garcia, 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