

# Coconino County – Our Financial Picture ...Past, Present and Future

Coconino County faces unprecedented financial challenges. Despite its historically conservative financial approach, the County is in serious jeopardy due to State program cuts and State cost shifts. Additionally, the County's own revenues

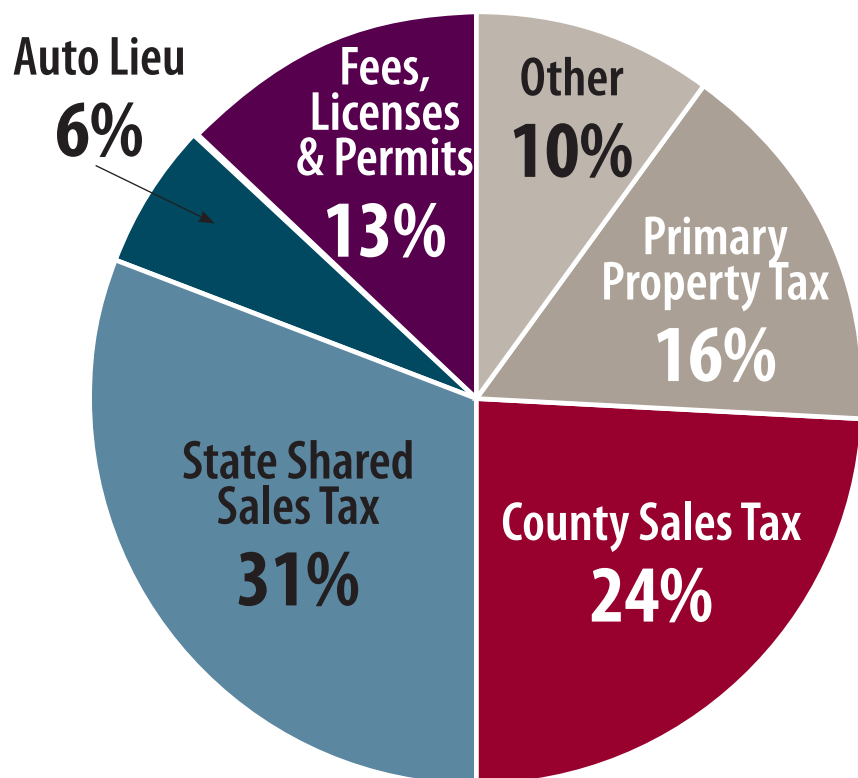
have dropped due to the recession. Here is the County's financial story - our financial history, the current financial crisis, and the expected future challenges. Before we start to tell our story, a brief review the basics of County finance.

## Basics of County Finance

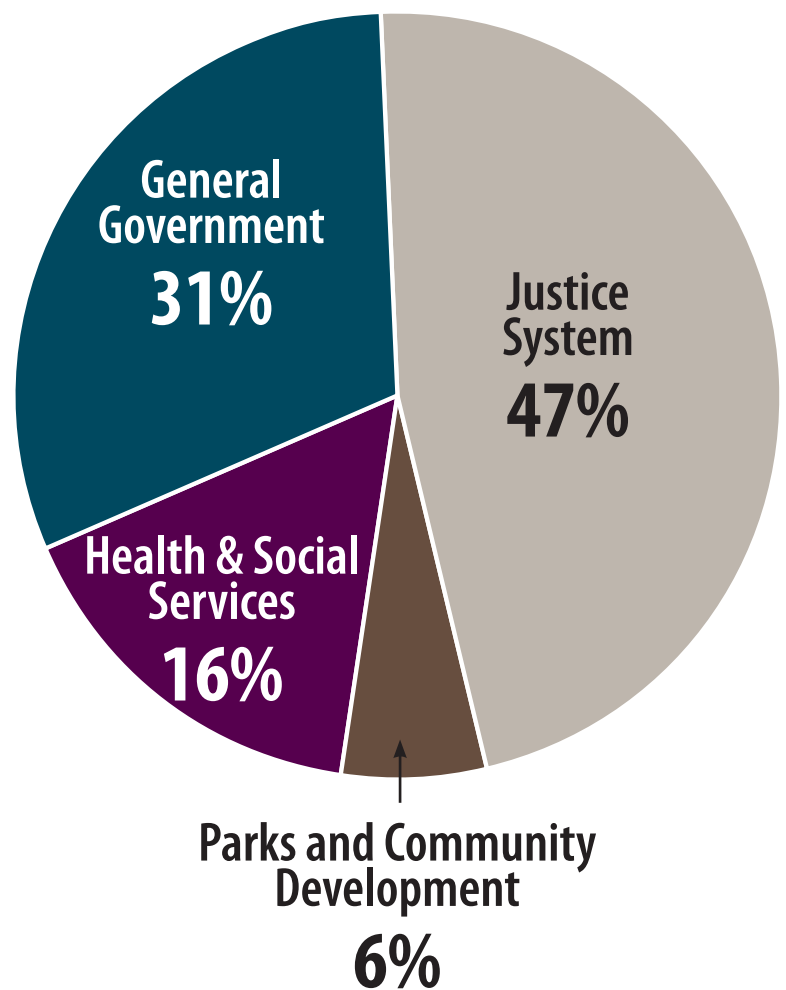
COCONINO COUNTY'S ANNUAL TOTAL BUDGET this year is \$160 million. A significant portion of the budget is associated with special funds and districts, such the Flood Control District, Jail District, and Library District. The fund that covers the costs associated with most of the County's day to day business is called the General Fund. The General Fund

includes services most people associate with the County, such as the courts, Sheriff's patrol, and public health. The General Fund annual budget this year is \$60 million. Below are a set of charts that show the breakdown of the revenue sources for the General Fund and the breakdown of the General Fund expenditures.

General Fund Revenue, FY 2010



General Fund Expenditures, FY 2010



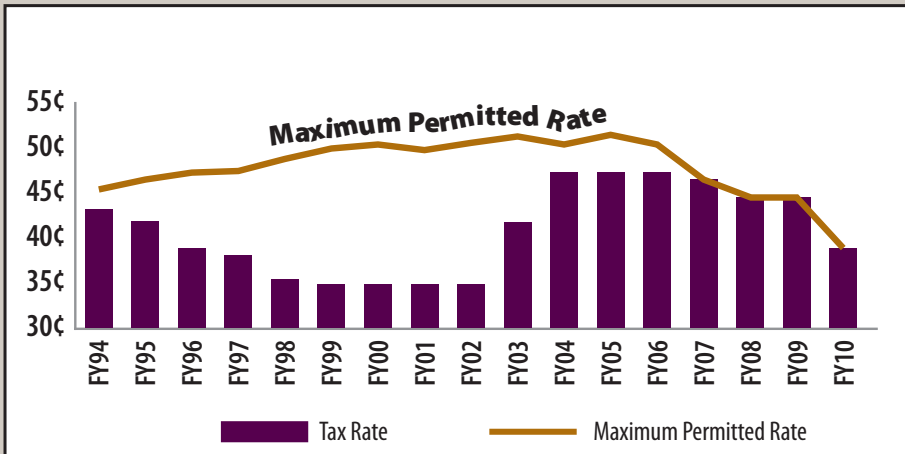
# County's Financial Past

## How Has the County's Financial Approach Been Conservative?

During the 1990's the County held the total amount of property tax revenue collected relatively flat even when property values were increasing because the Board of Supervisors supported a fiscally conservative approach. For about ten years the property tax rate declined. The property tax rate was raised in 2003 and

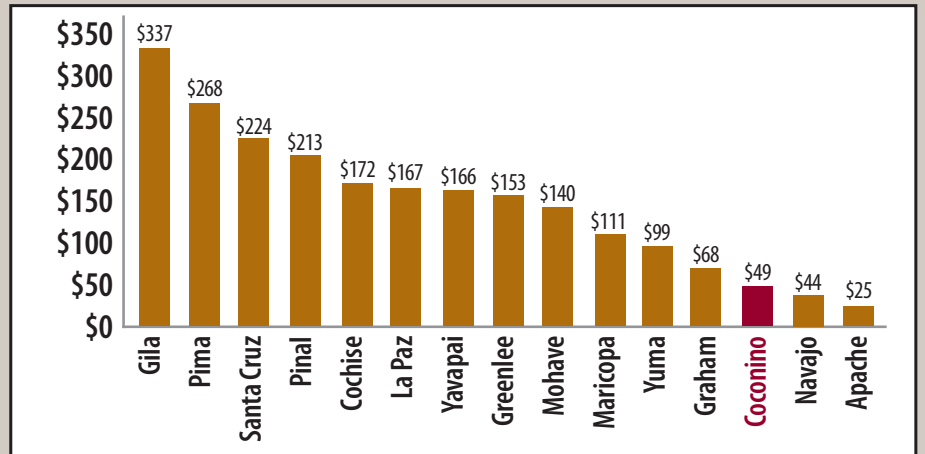
2004 to offset the State's cuts to state shared sales tax revenues during the post Sept. 11 recession. Even with that increase, the conservative approach has continued and **Coconino County's property tax rate remains the second lowest in the state and taxes per resident are third lowest.**

Coconino County Primary Property Tax Rate History



The difference between what the County could have collected in primary property taxes (maximum permitted amount) and the actual taxes collected was \$11.3 million.

County Primary Property Taxes per Resident



Coconino County's property taxes per resident are third lowest in the state and the property tax rate remains the second lowest in the state.

## What Has the County's Financial Landscape Looked Like Over the Past 10 Years?

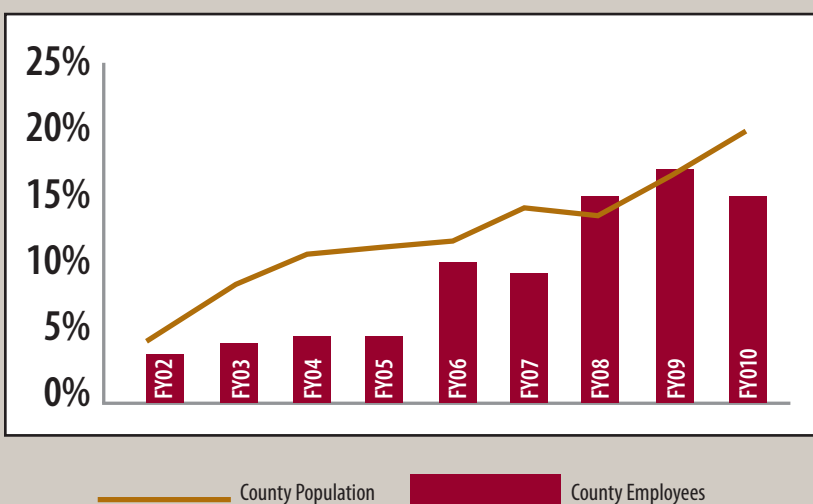
Three things characterize the County's financial landscape over the past 10 years—

- Continuing the fiscally conservative approach,
- Instituting innovative and proactive financial management tools, and
- Declining state funding for state mandated services.

### Continuing the Fiscally Conservative Approach

The County did not increase funding of services beyond population growth even though revenue growth would have supported increasing the budget and adding significantly more employees.

Number of Employees Compared to County Population



← Growth in Number of Employees Trails County Population

### Instituting Innovative and Proactive Financial Management Tools

- ✓ Implemented more conservative approach to forecasting revenues –
  - Assumed recession would occur on average every ten years
  - Did not try to predict when a recession would occur, but instead planned for it
  - Forecasted revenues based upon recessionary levels for the first two years of the 10 Year Planning Cycle
- ✓ Aligned mandated expenditures (wages and benefits associated with mandated services) with recessionary level revenues so that services could be sustained through a typical recession
- ✓ Revenues collected that exceeded the recessionary level were largely allocated to debt reduction and building up reserves. The debt reduction and reserves are now being used to help address the current fiscal crisis

## 1980's

Voters approve Property Tax Limits and Expenditure Limits on Counties



State Legislature creates low-income healthcare program and mandates county contributions to help fund the program



## 1990's

State reduces funding for state mandated programs



State authorizes counties to collect ½ cent sales tax

State shifts costs to counties

Board holds property tax levy constant as property values rise – saves taxpayers over \$11 million

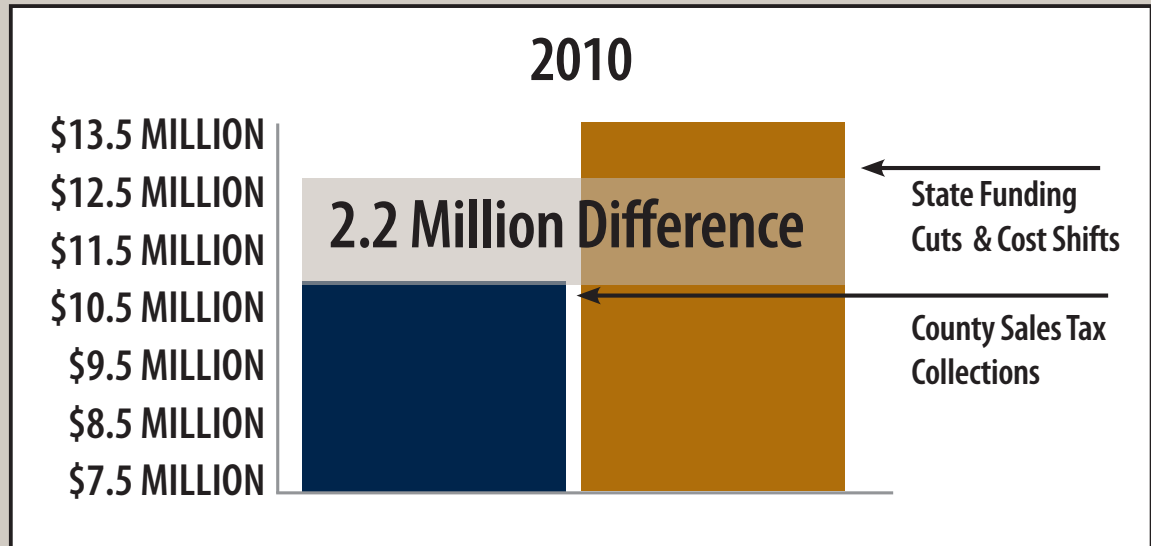


## Declining State Funding for State Mandated Programs

As the state continued to cut funding for County programs, cut state tax collections shared with counties, and shifted state costs to counties, the state finally authorized counties to impose a ½ cent county sales tax for general operations.

However, the maximum amount of the permitted county sales tax was still much less than the state cuts and cost shifts. As the chart shows, the permitted county sales tax generates only \$11 million, while the total of the state cuts and cost shifts total \$13.2 million. **The new revenue is \$2.2 million less than the state cuts and cost shifts.**

## State Funding Cuts and Cost Shifts



The state cut funding for state mandated programs delivered by the County and shifted costs to the County over the past 10 years – long before the current recession. The impact to Coconino County is over \$13 million.

## Examples of State Cuts and Cost Shifts Since 1998

Cuts to Health Services.....	\$480,000
Cuts to Public Safety Services .....	\$885,000
Cuts to Court System.....	\$1 Million
Property Tax Valuation System.....	\$1.9 Million

### State Cuts to Revenues: \*\*

State Shared Sales Tax .....	\$4.3 Million
Gas Tax.....	\$3 Million

\*\* Represents state cuts and difference between funding provided and funding level that meets population growth and Consumer Price Index (CPI)

## When Did the County Recognize that Costs Were Growing Faster Than Revenues, Even with a Tightly Controlled Budget? What Did the County Do?

The Board of Supervisors and staff recognized an emerging structural problem with the General Fund budget in 2007. On-going State program funding reductions, State cost shifts and rising health insurance, retirement, utility and fuel costs contributed to rising expenses while revenue growth remained capped and limited. At that time the evidence was clear that within the next five years the County would experience a budget deficit, unless additional actions were taken.

So, the County took several important actions, including:

- Implementing a 10 Year Financial Plan,
- Aligning revenue types with expenditure types,
- Instituting a more conservative revenue forecasting method that accounted for limited revenues during expected economic recessions within the ten-year planning horizon,
- Paid off debt and built up reserves, and
- Began exploring potential revenue sources, such as establishing a public health services district tax.

## 2000's

State shifts more cost of public health services to counties and relieves cities from any support of public health services

State authorizes counties to establish Public Health Services Districts to partially compensate for state and city funding reductions

Voters approve Prop. 101, which freezes county property tax levy at 2006 level

County voters approve increase to Jail District Sales Tax to address rising jail costs

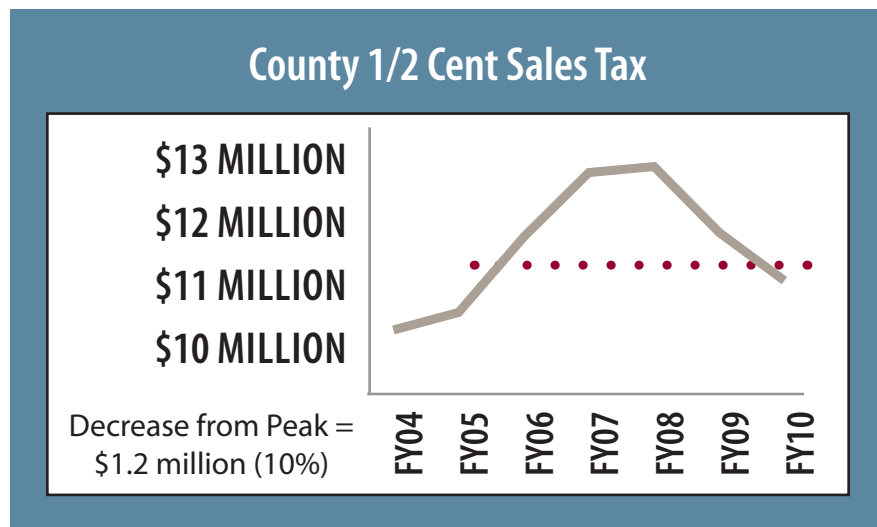
County begins exploring limited options for increasing revenues in 2007, including establishing a Public Health Services District

# Current Financial Crisis

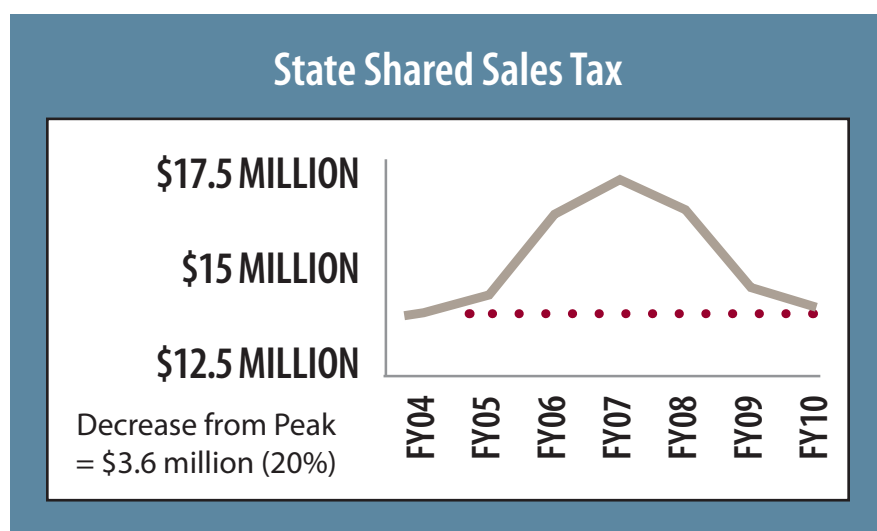
The County recognized its financial vulnerability as early as 2007 and took action. The County prepared for a recession similar to past recessions – it built up reserves and estimated revenues very conservatively – but no one planned for a recession this severe. For example, County sales tax revenues

were down about \$1 million in FY 2009 – or down to about the level of revenues from **five** years ago. The County has used its reserves and cost cutting to balance the current year budget while experiencing more state program cuts and cost shifts.

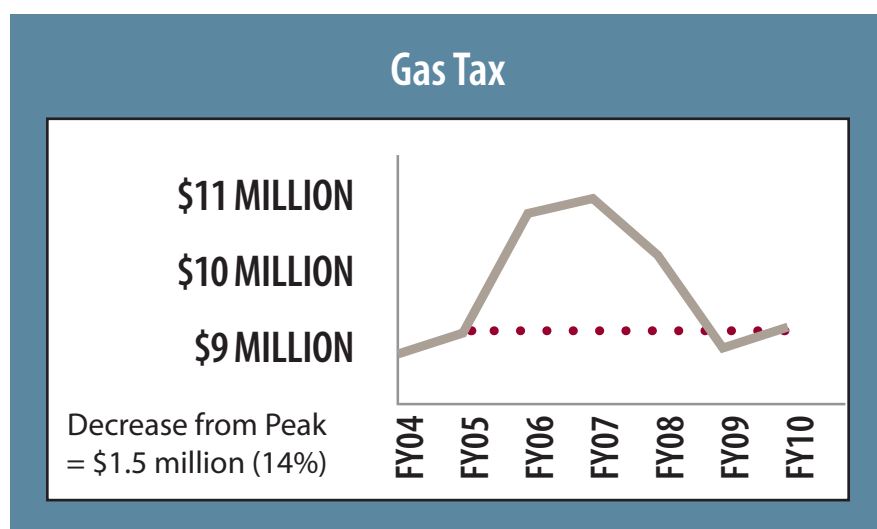
## Revenue Reductions Experienced



The County's sales tax revenues declined \$1.2 million from the peak in 2007 and 2008. County sales taxes reflect the goods and services sold within the county.



State Shared Sales Tax revenues declined \$3.6 million from the peak in 2007. This represents a 20% decrease. State Shared Sales Taxes are allocated by the state.



The County's share of the gas tax revenues declined \$1.5 million since the peak in 2007. The County dedicates its gas tax revenues to county road construction and maintenance.

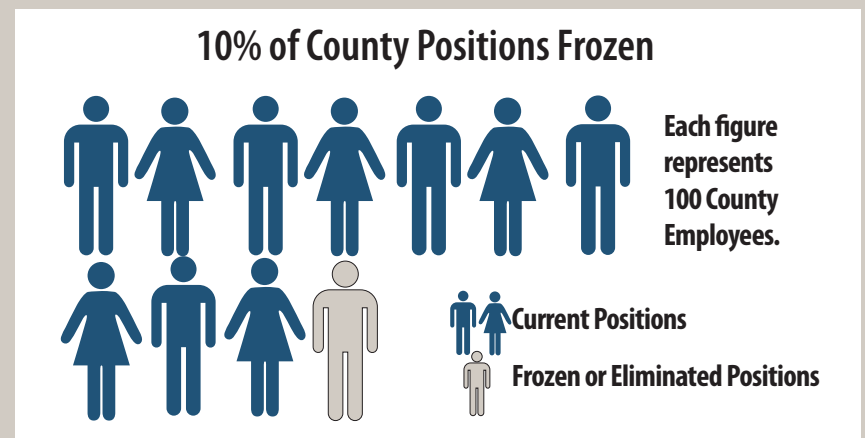
## What Is The County Doing To Address The Fiscal Crisis?

The County is taking a three-prong approach to addressing the fiscal crisis –

- Cutting expenses,
- Using some reserves, and
- Developing additional revenue.

All three actions must be taken to protect services and maintain solvency. The County has reduced costs. The County cut \$2.1 million from General Fund spending last year. Currently over 100 positions are frozen. The County is preparing to cut costs by about another 7% this year and another 7% next year. The County is using reserves to assist with balancing the budget. The County developed these reserves through its very conservative financial management. Finally, after all these efforts, the Board approved a public health services district funded by a property tax.

### Cutting Expenses



### Use of Reserves

The County's conservative fiscal approach also involves maintaining reserves that can be used in an emergency and what we call "revenue smoothing." Revenue smoothing funds means funds that can be used to stabilize the budget during a typical recessionary period when revenues are down. The County's goal is to maintain 15% of its revenues in the General Fund for emergency reserves and revenue smoothing. During the years with higher than average revenues, the County diligently allocated more funds to emergency reserves and revenue smoothing with the goal of being able to weather a typical recession without having to impact services. However, the current severe recession is requiring the use of a substantial amount of our reserves to balance budgets.

## 2000's

County identifies emerging financial challenges



County institutes innovative financial management tools



County pays off debt to free up funds



Even with major revenue increases, state continues to reduce funding of state mandated programs



Great Recession hits – local and state revenues plummet



## Developing Additional Revenue

### WHY DID THE COUNTY BOARD VOTE NOW TO RAISE PROPERTY TAXES?

The Board has been formally discussing the need for additional revenue since early 2007 when it could see there would be a revenue shortfall in the next few years. At that time, it was clear that a future tax increase might be necessary. In September 2007, the County began exploring and evaluating the few, limited options available under state law, including enacting a property tax to fund a public health services district. **State budget cuts have made it impossible for the county to maintain essential services without additional revenue.** And, it is likely the state will push more costs onto the County given the growing state deficit. By voting now, the Board assured the County will remain solvent.

### WHAT AUTHORIZED THE BOARD TO RAISE THE PROPERTY TAX?

In 2000, the State law authorized counties to raise property taxes for public health services at the same time it transferred more of the public health costs to counties and eliminated the payments from cities that had helped pay those costs.

### WHY DID THE COUNTY WAIT TO RAISE THE PROPERTY TAX WHEN IT WAS FIRST AUTHORIZED IN 2000?

Coconino County has resisted tax increases and has exercised strict budget control for years. By carefully controlling their budget, the Board of Supervisors has been able to live within their existing tax revenues, even as revenues declined and the state shifted over \$13 million

in costs to the County. However, additional state cuts to counties and the weak economy have made the county's current fiscal challenges even greater. **By delaying this property tax increase as long as possible, the Board saved county taxpayers over \$35 million since 2000.**

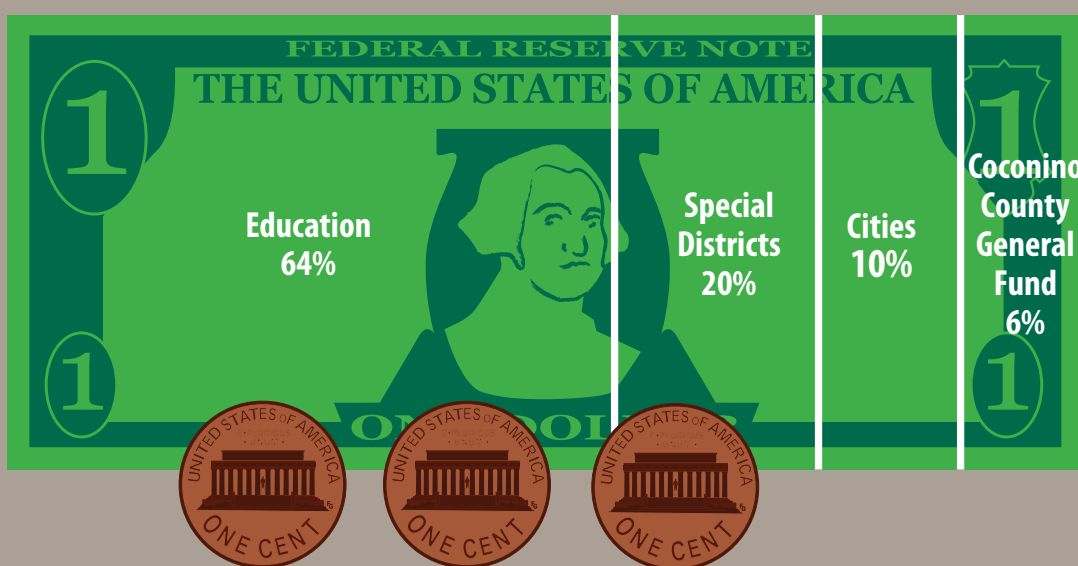
### WHAT WILL THE PROPERTY TAX INCREASE MEAN FOR COUNTY TAXPAYERS?

First, it is important to remember that county government only receives a very small part of the property taxes (**only six cents of every tax dollar**) that county residents pay each year, even though the county serves as the tax **collector** for the state, the cities, the schools, and many special districts. The new property tax will increase property taxes for a \$300,000 home by about \$80 a year or less than \$10 each month. The amount is even smaller for less expensive homes. On the total property tax bill, the additional tax amounts to a 3% - 5% increase for residential, commercial and agricultural properties. **The County's primary property tax rate remains the second lowest in the state even with the tax increase.**

### WHY WAS IT REPORTED AS AN 18% INCREASE IN COUNTY PROPERTY TAXES?

That 18% is based on only the County portion of property taxes, not the entire property tax bill. Right now the County's portion of every tax dollar is 6 cents. **The tax increase equates to a 3% - 5% increase on the overall property tax bill.**

## Where Does My Tax Dollar Go?



The Coconino County General Fund keeps **less than 6% of all taxes collected.** These taxes support General Government, Public Safety and Justice Systems, Health Services, Social Services, Community Development and Parks and Recreation.

\* Percentage tax distributions and taxing districts vary by property location. The percentages above represent the total distribution of all taxes collected by the Coconino County Treasurer.

After the tax increase, the average property tax bill will increase 3¢ per dollar.

## 2000's

State reduced County's State Shared Sales Tax revenues in 2003 & 2004. County raises primary property tax rate to address revenue shortfall.

State cuts and cost shifts total \$4.6 million in FY 2009

County cuts \$2.1 million to balance budget going into FY 2010

County freezes over 100 positions to reduce costs

Board approves creation of Public Health Services District funded by a property tax

The actual property tax rate will be set through the budget process annually

# County's Financial Future

## How Does the Revenue From a Public Health Services District Impact the County's Fiscal Crisis?

The County will use the new revenue to protect public health services, to the extent possible, from further state cuts and the impacts of declining revenues. The state has already implemented several significant funding cuts to public health services, such as immunizations, communicable disease management, child and maternal health services, children's oral health services, and home health services for low-income elderly.

While the County will be using the new revenues to preserve, to the extent possible, existing public health services, the new

revenues will also allow the County to use general monies, which would otherwise fund public health services, to help preserve other essential County services.

However, given that the County's estimated deficit for next year is over \$8 million and the maximum amount of new tax that could be collected is only \$5 million, the County must also cut costs and use reserves to balance the budget. Protecting basic County services will continue to be a challenge.

## What Does the County's Financial Future Look Like?

The County fully expects major challenges in balancing its budget for the next several years given the recession and burgeoning state deficit. The County is implementing a new, even more cautious, budget process that focuses on assuring that County taxpayers continue to obtain a very good return on their investment. The new budget process focuses on prioritizing services based on value to our communities. As the County has to further cut services to balance the budget, the new budget process will be used to identify what services are most important to "keep" during this difficult time.

One of the greatest challenges facing the County is that so many of the costs that increase its budget are mandated by the State, and yet the Board of Supervisors does not have authority to manage those costs. In other words, this means that the state requires the County to provide mandated services, but does **NOT** provide the funding to pay for the services. This results in pressure to raise revenues at the county level to pay for state mandated services.

### 90% of the Revenues Cannot Be Increased by the Board of Supervisors

Revenue Source	Percent of Budget	Who Controls
State Shared Sales Tax	31%	State Allocated
County Sales Tax	24%	State Capped
Primary Property Tax	16%	Voter Capped
State and Federal	14%	State and Federally Allocated
Other	4%	Capped and Allocated
Investment Income	1%	Limited Investment Options
<b>Subtotal: Allocated, Capped or Dependent on Outside Factors</b>	<b>90%</b>	
Licenses, Permits, Fees	10%	Board of Supervisors Cannot Exceed Cost of Service
Total Revenues		100%

## Current Snapshot



- Deficit
- Three-Prong Approach:
  - Eliminate & Reduce Services
  - Use Limited Reserves
  - Develop Additional Revenue (at max rate)

Shortfall (estimated)

FY2010

\$11.4 Million

FY2011

\$10.3 Million

\$3.3 Million +

\$4.5 Million

\$1.8 Million +

\$ TBD

\$5 Million

+--\$3.8 Million

+--\$3 Million

These figures do assume additional state cuts in FY 2011

### 2000's

Even if the max rate is applied, County tax rate remains second lowest in the state

The County saved taxpayers \$35 million by postponing new district tax since 2000

County implements new budget process – focuses on prioritizing services based on value to communities

As of January 2010, State still has not balanced current year budget

State estimates \$4.5 billion deficit next year

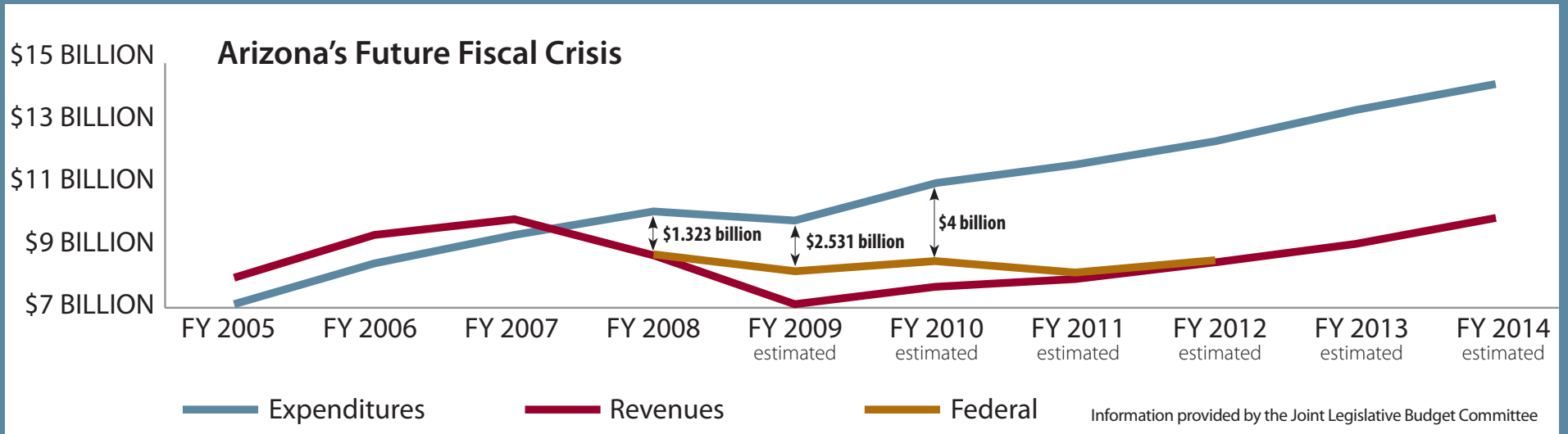
## How Will the State's Major Budget Deficit, that is Expected to Extend for Many Years, Impact the County?

During the past year, the State has cut funding and shifted costs to the County totaling approximately **\$4.6 million**. The State deficit for the current year is estimated at over \$2 billion and the deficit for next year is estimated at over \$4.5 billion. As the charts below show, the State expects to experience significant deficits for many years and the funds available to address the crisis are very limited. The County fully expects continuing significant funding reductions and cost shifts from the state. For example, the Governor proposes to **shift all costs** associated with incarcerating juvenile felons and all costs associated with housing sexually violent prisoners to the counties. The cost for both incarceration and post incarceration management of juvenile felons, historically a state responsibility, is estimated to be \$325,000 – \$500,000 per year. The cost associated with housing sexually violent prisoners, also historically a state responsibility, is \$200,000 per prisoner per year.

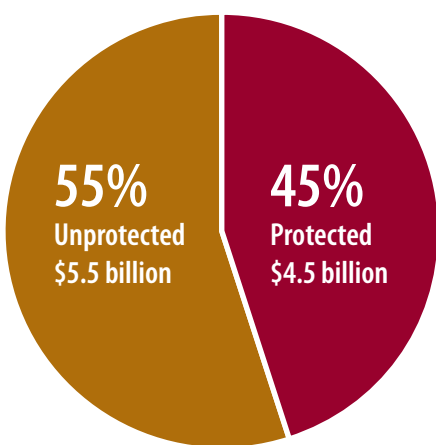
As the State grapples with their budget deficit, several options have been identified (and some implemented) to balance the State's budget on the backs of Counties. **Overall, Counties have seen a \$120 million impact from cost shifts and unfunded mandates by the state.** The state is considering many cuts that will continue to impact Coconino County, including:

- Eliminating funding for low-income health care and shifting this cost to counties
- Increasing public safety costs to counties, including housing state prisoners (reduces County Jail District budget by \$2 million/year)
- Reducing state share of long-term care costs and passing on the cost to Counties
- Implementing numerous judicial, environmental and public health fund sweeps
- Continuing dramatic reductions of road maintenance funding for counties

### Impacts from State Budget Worsening



### Impacts on County Inevitable



The state appropriated expenditures for last year were \$9.9 billion of which \$4.5 billion are protected from budget reductions

**State Agency Operating Budget = \$9.9 billion**

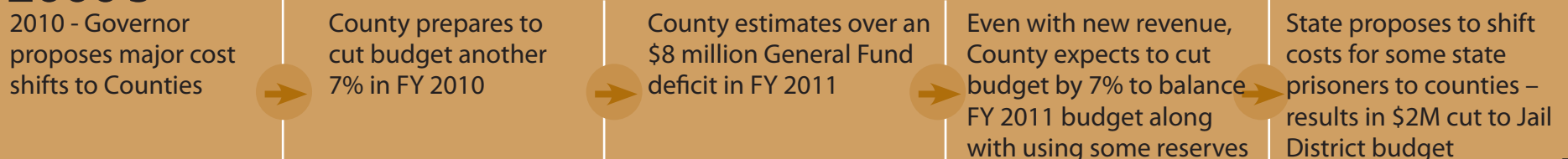
Chart information provided by the Joint Legislative Budget Committee

### Simple Math

State Deficit for FY 2011 = (est.) \$4.5 Billion  
 Unprotected State Funds = (est.) \$5.5 Billion

Means that the state would need to cut unprotected state funds by 80% to balance the FY 2011 budget

### 2000's





**COCONINO COUNTY ARIZONA**  
BOARD OF SUPERVISORS

Carl Taylor  
District 1

Elizabeth Archuleta  
District 2, Chair

Matt Ryan  
District 3

Mandy Metzger  
District 4

Lena Fowler  
District 5

Dear County Resident:


The Board of Supervisors thanks you for your interest in the County's financial condition. We understand this is a difficult time for many County residents, and that we need to do everything within our power to protect our families and local businesses. This means keeping taxes as low as possible, while trying to maintain the important services so many families need in these very challenging times.

The creation of a Public Health Services District funded with an increase in property taxes was an exceptionally difficult decision, but one we had been considering since 2007. We acknowledge some residents have concerns about the Board's decision, but the solvency of Coconino County was at risk and we could no longer delay increasing revenues and still protect basic county services, particularly given the increasing demand for services by residents who are feeling the impact of the recession. Increasing the property tax through the Public Health Services District while also instituting a hiring freeze and cutting costs was important to protecting services, avoiding insolvency, and providing some assurance to the community as to our future.


Our next step will be to set the actual property tax rate for the district for this next fiscal year. The rate set by the Board will reflect several factors, including the level of state cuts and cost shifts, the status of the state and local economy, and the level of cuts we believe are attainable while still protecting basic services and not devastating our local economy. As always, we encourage you and other community members to participate in the County's budget process, which will take place in May.


As these materials describe, the County still faces major financial challenges. But, we are completely committed to continuing our conservative financial philosophy, and to providing the most important services in the most cost effective manner possible. We hope you will continue to provide your thoughts as we face even more difficult decisions over the next several years.


Committed to our communities,

  
Carl Taylor, District 1

  
Elizabeth "Liz" Archuleta, District 2

  
Matt Ryan, District 3

  
Mandy Metzger, District 4

  
Lena Fowler, District 5



219 E. Cherry Avenue  
Flagstaff, AZ 86001-4695  
County website • [www.coconino.az.gov](http://www.coconino.az.gov)

Bonnie Larkin  
County Manager's Office  
928-679-7130