



Board of Supervisors Memorandum

November 5, 2019

Board of Supervisors Policy for General Fund Pay-As-You-Go Capital Improvement Funding

Background

As part of the adopted budget for the current fiscal year, the Board approved a primary property tax rate and levy necessary to fund several General Fund capital improvement projects on a pay-as-you-go (PAYGO) basis. During the budgeting process, the Board also requested the development of a General Fund PAYGO policy to fully transition from voter-authorized general obligation bond funding of capital improvement projects, to a PAYGO program. To be clear, this transition has already occurred for the Library District, Regional Flood Control District and Regional Wastewater Reclamation Department. This Board policy would only apply to capital improvement projects funded from the General fund with primary property tax revenues. Attached is the policy for Board consideration (Attachment 1). I am providing these materials well in advance of the November 5 Board meeting so as to provide plenty of time for review and consideration.

General Funding of Capital Improvement Projects

The Board recently received a copy of the Pima County Integrated Infrastructure Plan and a memorandum detailing the County's capital improvement planning process. The County funds capital improvement projects from a variety of funding sources. Historically, the General Fund has largely been used to fund operations, not capital improvements. The exceptions to this have been growing since the loss of revenue from voter-approved general obligation bonds, which has resulted in the County issuing Certificates of Participation (COPs) repaid over as little as 3 years but as long as 15 years with general funds and other revenues to mainly meet expenditure limits. The Board has expressed support for reducing the issuance of these short to medium-term debt instruments as a way to reduce interest costs. One way to do this is to levy additional primary property taxes to fund projects on a pay-as-you-go basis, which will limit most new debt to the minimum 3-year period in order to comply with expenditure limitations.

Before describing the various General Fund PAYGO funding scenarios, it is important the Board understand that revenues other than annual property taxes are retained in the General Fund, some of which will continue to be available to fund capital improvement projects. For example, the County leases buildings and facilities to outside entities and non-General Fund County departments in return for rent. This rent is deposited in the Facilities Renewal Fund and used to fund repairs and improvements to County facilities. In addition, for large capital improvement projects, it still may be necessary to issue medium-term COPs to be repaid over time with General Fund revenues until a large enough fund is built up for General Fund PAYGO.

General Fund PAYGO Capital Improvement Fund Revenue Scenarios

As part of my budget memorandums to the Board, I proposed a scenario to generate substantial additional funding for General Fund capital improvement projects, with the goal of building up a fund of approximately \$50 million a year, while still reducing the combined County property tax rate. I also said I would provide additional scenarios for the Board to consider.

As the Board will recall, the premise behind the original scenario was two-fold. First, the debt service secondary property tax rate will begin decreasing substantially next fiscal year as our general obligation bond debt is repaid. Therefore, a portion of the decrease in the secondary tax rate from the prior year could be applied to the primary property tax rate to fund capital improvement projects. Second, the primary property tax base continues to grow and a portion of this growth could be allocated to fund capital improvement projects while the remaining portion is used to reduce the primary tax rate. Originally, I had recommended a 50/50 scenario, whereby 50 percent of the decrease in the secondary property tax rate, plus 50 percent of the growth in the primary taxable net assessed value could be allocated to a dedicated fund for PAYGO General Fund capital improvement projects. In addition, because of the critical need for funding for road repair, I had recommended \$5 million from the General Fund for road repair this current fiscal year, and increasing that amount by \$5 million a year from General Fund PAYGO until the annual allocation totaled \$25 million.

Table 1 shows the total revenues per year generated under the original 50/50 scenario, the amount allocated for road repair, and the amount remaining for other capital improvements. The table also includes two additional scenarios. Attachment 2 includes the detailed tables behind each scenario. Note that the road repair allocation is the same for all scenarios, what differs is the total amount available and the amount available for non-road repair capital improvements. As you can see, the 50/50 scenario generates the least and the 100/50 scenario generates the most, with the 60/60 scenario in the middle.

Table 1
General Fund PAYGO Funding Scenarios Over 10 Years

	FY20-21	FY21-22	FY22-23	FY23-24	FY 24-25
50/50 Total Available for PAYGO	17,623,514	18,022,218	26,164,485	31,656,985	32,647,498
Road Repair Allocation	10,000,000	15,000,000	20,000,000	25,000,000	25,000,000
Remaining Allocation	7,623,514	3,022,218	6,164,485	6,656,985	7,647,498
60/60 Total Available for PAYGO	21,148,217	21,626,661	31,397,381	37,988,382	39,176,997
Road Repair Allocation	10,000,000	15,000,000	20,000,000	25,000,000	25,000,000
Remaining Allocation	11,148,217	6,626,661	11,397,381	12,988,382	14,176,997
100/50 Total Available for PAYGO	25,270,454	28,324,994	44,212,696	55,468,031	61,068,775
Road Repair Allocation	10,000,000	15,000,000	20,000,000	25,000,000	25,000,000
Remaining Allocation	15,270,454	13,324,994	24,212,696	30,468,031	36,068,775

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	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30	Total
50/50 Total Available for PAYGO	33,827,533	36,116,982	39,581,219	42,610,227	44,032,965	322,283,624
Road Repair Allocation	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	220,000,000
Remaining Allocation	8,827,533	11,116,982	14,581,219	17,610,227	19,032,965	102,283,624
60/60 Total Available for PAYGO	40,593,039	43,340,378	47,497,462	51,132,272	52,839,559	386,740,349
Road Repair Allocation	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	220,000,000
Remaining Allocation	15,593,039	18,340,378	22,497,462	26,132,272	27,839,559	166,740,349
100/50 Total Available for PAYGO	63,344,321	67,837,005	74,677,539	80,645,857	83,399,843	584,249,513
Road Repair Allocation	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	220,000,000
Remaining Allocation	38,344,321	42,837,005	49,677,539	55,645,857	58,399,843	364,249,513

It is worth comparing the non-road repair allocations for each scenario to the unfunded projects included in the 10 year Integrated Infrastructure Plan. Approximately \$767 million of unfunded projects are included in General Fund departments; however, \$306 million of these are in the economic development category and include projects suitable for partial funding contributions by non-General Fund departments. Removing the economic development projects leaves \$461 million of unfunded projects in General Fund departments. The 50/50 scenario could provide about 22 percent of this unfunded amount, the 60/60 scenario 36 percent, and the 100/50 scenario 66 percent.

It would be ill advised, though, to recommend a scenario based on this comparison alone, given that many of the project cost estimates and scopes included in the Integrated Infrastructure Plan are preliminary. Actual costs and scopes may differ greatly if and when a given project is included in the Board's annual capital improvement program. In addition, the unfunded project amount in the Integrated Infrastructure Plan does not mean there are no known funding sources. Grants, developer contributions, donations, funding participation from other local governments, or even funding from non-General Fund departments could be allocated in the future to fund a portion of this unfunded amount.

Property Tax Rate Impact of Scenarios

The property tax rate implications for the scenarios are more important to consider, particularly if the objective is to implement the General Fund PAYGO program while reducing tax rates. Table 2 shows the estimated impact to the County's primary property tax rate and combined County property tax rates for each of the three scenarios. The combined County tax rate includes all of the tax rates levied by the Board, the primary, as well as four secondary tax rates (Debt Service, Flood Control, Library and Fire District Assistance). Fire District Assistance is included as required by the State, but the Board has no control over the rate amount.

It is estimated that all three scenarios could be implemented while reducing the combined County tax rate, with the 50/50 scenario reducing the combined rate the most, and the 100/50 scenario reducing it the least. This is the most meaningful way to review the impacts to tax payers since tax payers are responsible for paying all County levied taxes, not just

one of the levies. That said the impact to the primary is also shown since we will continue to hear from critics that the primary rate is too high even if the County has lowered the combined rate. The 50/50 scenario results in the lowest primary property rate by FY2030, the 60/60 scenario results in a primary rate that is 6 cents lower than this year's rate, and the 100/50 scenario results in a rate that is 10 cents higher than this year's rate. Keep in mind this assumes that growth in the primary tax base and decreases in the secondary tax rate that are not applied to PAYGO, will instead be used to decrease the tax rates.

Table 2
Pima County Tax Rate Impact by Scenario

Scenarios	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Primary Tax Rate											
100/50 Scenario	3.9996	4.0587	4.0263	4.0931	4.1157	4.1548	4.1239	4.1130	4.1221	4.1212	4.0903
60/60 Scenario	3.9996	4.0129	3.9769	4.0004	3.9984	4.0137	3.9870	3.9723	3.9696	3.9609	3.9342
50/50 Scenario	3.9996	3.9737	3.9163	3.9081	3.8807	3.8798	3.8439	3.8180	3.8021	3.7812	3.7453
Combined Tax Rate											
100/50 Scenario	5.6014	5.4666	5.3664	5.2652	5.1710	5.1214	5.0718	5.0222	4.9726	4.9229	4.8733
60/60 Scenario	5.6014	5.4256	5.3254	5.1844	5.0691	4.9974	4.9537	4.9020	4.8423	4.7866	4.7429
50/50 Scenario	5.6014	5.3816	5.2564	5.0802	4.9360	4.8464	4.7918	4.7272	4.6526	4.5829	4.5283

Recommended Revenue Scenario

After reviewing impacts to the County property tax rates and considering our capital needs over the next decade, I recommend the 60/60 revenue scenario, whereby 60 percent of the decrease in the secondary property tax rate, plus 60 percent of the growth in the primary net assessed value could be allocated to a dedicated fund for PAYGO General Fund capital improvement projects. The attached Board policy includes this revenue scenario.

General Fund PAYGO for Road Repair Sufficient to Solve our Road Repair Crisis in 10 Years

The Board has considered everything in its power to address our road repair crisis, almost all of which has been unsuccessful. This fiscal year the Board budgeted \$5 million in general funds for road repair. Combined with the Department of Transportation's Highway User Revenues Fund (HURF) and Transportation Vehicle License Tax (TVLT) revenues, and the remaining 1997 HURF bond proceeds reallocated for this purpose, Pima County will spend \$26 million this fiscal year on road repair within the unincorporated area. While that is considerably more than years prior, substantial additional funding over many years is necessary to address the crisis. The good news is that if the Board adopts the attached Board Policy and follows the policy for the next 10 years by allocating the recommended amount for road repair, it appears that the condition of all of our unincorporated local, arterial and collector roads will be in at least good condition by Fiscal Year (FY) 2029/30.

Pima County's Department of Transportation ran an analysis that considered estimates of Department of Transportation funding over the next 10 years, plus the proposed PAYGO

allocation for road repair (Attachment 3 - September 13, 2019 memorandum from Assistant County Administrator Yves Khawam). The StreetSaver model allocated these funds annually to repair roads in unincorporated Pima County in the most efficient way possible, based on need and unrestricted across arterial, collector and local roads based. Table 3 shows the resulting average road repair conditions across the network for each year. By the end of the current fiscal year, after investing the \$26 million budgeted, the average network condition index is anticipated to be at 42 out of 100, which is poor. However, by FY 2029/30, with the level of investment shown, the average network condition index is anticipated to climb to 80, which is very good, with the model showing no remaining deficit beyond regular cycle maintenance. That would be the point at which PAYGO funding for road repair could be scaled back.

If there are no major contingencies on the horizon for which we would need to reserve a relatively large general fund balance, it is also likely an increased investment could be made this fiscal year or FY 2019/20 and approach the amount now scheduled for FY 2022/23. This would reduce the amount of PAYGO funding needed long term for road repair.

Table 3
Road Repair Funding and Improvements in Road Conditions

Year	Transportation Department Funding	PAYGO Allocation	Total Funding	Network Pavement Condition Index	Network Pavement Condition Index Improvement From FY18/19
FY19/20	21,000,000	5,000,000	26,000,000	42	10%
FY20/21	16,000,000	10,000,000	26,000,000	43	12%
FY21/22	16,000,000	15,000,000	31,000,000	45	16%
FY22/23	21,000,000	20,000,000	41,000,000	48	24%
FY23/24	23,000,000	25,000,000	48,000,000	52	33%
FY24/25	29,000,000	25,000,000	54,000,000	57	44%
FY25/26	30,000,000	25,000,000	55,000,000	62	56%
FY26/27	31,000,000	25,000,000	56,000,000	67	68%
FY27/28	35,000,000	25,000,000	60,000,000	71	79%
FY28/29	38,000,000	25,000,000	63,000,000	77	94%
FY29/30	41,000,000	25,000,000	66,000,000	80	99%
TOTAL	301,000,000	225,000,000	526,000,000		

The Board should also be aware that the Regional Transportation Authority is beginning to discuss funding priorities for the next 20-year regional transportation plan. If road repair funding is included in that plan, and if the plan and funding is approved by voters, then the Board may be able to reduce or eliminate the PAYGO road repair allocation.

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Board Policy

The attached Board policy includes the following:

- Transitioning from voter-approved general obligation bond funding of capital improvement projects to a PAYGO program as part of the General Fund.
- Targeting an amount of primary property tax revenues to be levied annually for the General Fund PAYGO program, based on the recommended 60/60 revenue scenario.
- Establishing a new unit under the Capital Projects Fund to be called the General Fund Capital Improvement Fund, to hold these PAYGO revenues.
- Continuing Board review and approval an annual list of capital improvement projects as part of the annual budgeting process.
- Acknowledging that significant additional funding is needed for road repair, and supporting an allocation of \$10 million in FY 2020/21 from General Fund Capital Improvement Fund for road repair, and increasing that allocation by \$5 million a year until the amount is \$25 million a year or until the Board finds such an allocation is no longer necessary.
- Identifying capital improvement projects recommended for funding from the General Fund Capital Improvement Fund clearly in the Recommended and Tentative Budgets, as well as any other budget materials the Board receives.
- Acknowledging that, because of constitutional limitations on expenditures, short-term three-year COPs repaid with revenues from the General Fund Capital Improvement Fund, may be necessary.

Implementation

If the Board approves the attached policy with the recommended 60/60 revenue scenario, staff will use that targeted primary property tax levy to develop next year's General Fund PAYGO capital improvement program.

The Pima County 10-year Integrated Infrastructure Plan, 5-year Capital Improvement Program, and current list of active capital improvement projects, can be found on Pima County web site at http://webcms.pima.gov/government/project_management_office_pmo/. Subject to unforeseen events, budget proposals for capital improvement projects will be developed by departments from these documents, will be due to Finance in January, and will be evaluated against this available funding, as well as other funding sources. I typically meet with departments regarding capital improvement project budgets in March and will submit to the Board a Recommended Budget in April that contains a list of capital improvement projects that specifically identifies the projects recommended for funding from the General Fund Capital Improvement Fund PAYGO Program.

Board Policy Does Not Change the Board's Budgeting Authority

It is important to note that the Board does not give up its annual budgeting authority by approving this policy. The Board can still chose to approve a General Fund budget that includes a lesser or greater amount of funding for General Fund PAYGO. The Board can still

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choose how much General Fund PAYGO to allocate to road repair versus other General Fund capital improvement projects. The Board can defer from Board Policy. However, the County Administrator would be required to prepare a budget in compliance with this Board Policy, unless the Board directs otherwise.

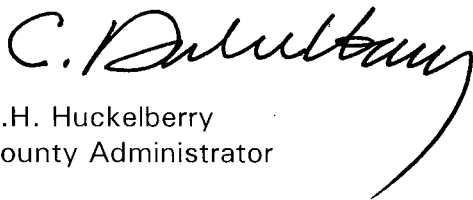
Recommendation

I recommend the Board approve the following:

1. Adopt Policy Number D22.12, General Fund Capital Improvement Fund Pay-As-You-Go Program. The policy as written will provide sufficient revenues to:
 - a. Fix our roads in 10 years;
 - b. Provide additional funding for other General Fund capital improvement projects as approved by the Board;
 - c. Reduce taxes spent on debt interest payments; and
 - d. Reduce the combined County property tax rate.
2. Allocate an additional \$10 million in FY 2018/19 ending fund balance to be distributed equally by Supervisory district for repair of local roads. Such an allocation will increase the FY 2019/20 road repair funding from \$26 million to \$36 million. A list of roads to be repaired using this additional \$10 million will be generated by the Department of Transportation using the already adopted FY 2019/20 Pima County Transportation Advisory Committee criteria for local roads, which focused on fixing failed roads first.

This information is being provided well in advance of the Board's November 5 meeting. Please contact me if you have any questions or concerns.

Sincerely,



C.H. Huckelberry
County Administrator

CHH/dr – September 20, 2019

- c:
- Jan Leshar, Chief Deputy County Administrator
 - Tom Burke, Deputy County Administrator for Administration
 - Carmine DeBonis, Deputy County Administrator for Public Works
 - Yves Khawam, Assistant County Administrator for Public Works
 - Michelle Campagne, Director, Finance and Risk Management
 - Nancy Cole, Manager, Project Management Office
 - Lisa Josker, Director, Facilities Management
 - Nicole Fyffe, Executive Assistant to the County Administrator

ATTACHMENT 1

**PIMA COUNTY, ARIZONA
BOARD OF SUPERVISORS POLICY**

Subject: **General Fund Capital Improvement Fund
Pay-As-You-Go Program**

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Purpose

To establish Pima County policy for determining the annual primary property tax levy for funding General Fund capital improvement projects on a Pay-As-You-Go basis, as well as the amount allocated to road repair.

Policy

A. Revenues

The Board of Supervisors supports the transition from voter-authorized general obligation bond funding of capital improvement projects to a pay-as-you-go (PAYGO) program as part of the General Fund. This PAYGO program will be funded by primary property tax revenues as calculated below and transferred from the General Fund to the Capital Projects Fund, under a unit called the General Fund Capital Improvement Fund.

The primary property taxes to be levied annually will include a PAYGO component based on the sum of the following:

1. Sixty Percent of the Cumulative Decrease in Secondary Property Tax Rate for Debt Service. As the secondary property tax rate for debt service of general obligation bonds decreases, 60 percent of the cumulative decrease will be added to the primary property tax levy. This will be calculated by multiplying 60 percent of the cumulative decrease in the tax rate since Fiscal Year 2019/20 by the applicable year's primary property tax base (Taxable Net Assessed Value of property) divided by 100.
2. Sixty Percent of the Increase in the Primary Property Tax Base. As the primary property tax base (Taxable Net Assessed Value of property) grows, 60 percent of the increase will be added to the primary property tax levy. This will be calculated by multiplying the increase in the primary property tax levy from the prior year by 60 percent.

Both PAYGO levy amounts will be combined to determine the total amount of primary property taxes to be levied annually for PAYGO and the revenues will be deposited into the General Fund Capital Improvement Fund.

**PIMA COUNTY, ARIZONA
BOARD OF SUPERVISORS POLICY**

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An example of this calculation is shown below for Fiscal Year 2020/21:

	FY19-20	FY20-21
Debt Service Secondary Property Tax Rate per \$100 TNAV ¹	0.690	0.520
Debt Service Secondary Property Tax Rate Decrease	-	0.170
Cumulative Decrease Since FY19-20		0.170
60% of Cumulative Decrease		0.102
Primary TNAV/100 ²	85,177,100	89,964,001
Subtotal: PAYGO Levy based on 60% of Cumulative Secondary Tax Rate Decrease Since FY19-20³		9,176,328
Primary Tax Levy TNAV Increase from Prior Year ⁴		19,953,148
Subtotal: PAYGO Levy based on 60% of Primary Tax Levy TNAV increase from Prior Year⁵		11,971,889
Total: Total PAYGO Levy		21,148,217

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 Capital Improvement Fund.

PIMA COUNTY, ARIZONA

¹ Secondary property tax rate necessary to pay principal and interest payments for all County outstanding general obligation bond debt, per \$100 of Taxable Net Assessed Value.

² Assumes the primary tax base (Taxable Net Assessed Value/TNAV) grows between 5.62% and 3.86% for FY20-21 through FY23-24, and 2% thereafter, with a collection rate of 97.5687%.

³ 60% of the cumulative decrease in the secondary tax rate since FY19-20 multiplied by the applicable year's primary property tax base (TNAV) divided by 100.

⁴ Primary tax levy increase from prior year assuming the primary tax base (TNAV) grows between 5.62% and 3.86% for FY20-21 through FY23-24, and 2% thereafter, with a collection rate of 97.5687%.

⁵ As the primary property tax base grows, 60% of the growth per year is dedicated to PAYGO.

BOARD OF SUPERVISORS POLICY

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Because of constitutionally imposed expenditure limits, this PAYGO program may include the issuance of short-term three-year debt instruments, such as Certificates of Participation, repaid with revenues from the General Fund Capital Improvement Fund. This short-term financing meets the definition of debt and allows an appropriate offset to the annually calculated expenditure limit. Projects funded from the issuance of short-term debt repaid with revenues from the General Fund Capital Improvement Fund will be identified separately from the projects funded directly.

B. Project Selection

The Board of Supervisors will continue to review and approve an annual list of capital improvement projects as part of the annual budgeting process. The capital improvement projects recommended for funding from the General Fund Capital Improvement Fund will be clearly identified in the Recommended Budget and the Tentative Budget, as well as any other budget materials the Board receives.

The Board of Supervisors acknowledges the need for additional funding for road repair and supports allocating \$10 million in Fiscal Year 2020/21 from the General Fund Capital Improvement Fund for road repair, and increasing that allocation by \$5 million a year until the amount is \$25 million a year or until the Board finds such an allocation is no longer necessary.

Adoption Date:

Effective Date:

ATTACHMENT 2

**Pay As You Go General Fund Primary Tax Levy
10 Years -50% Secondary & 50% Growth**

	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24	FY 24-25	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30
Debt Service Secondary Property Tax Rate per \$100 TNAV ¹	0.690	0.520	0.470	0.320	0.220	0.140	0.130	0.100	0.050	0.010	-
Debt Service Secondary Property Tax Rate Decrease	-	0.170	0.050	0.150	0.100	0.080	0.010	0.030	0.050	0.040	0.010
Cumulative Decrease Since FY19-20		0.170	0.220	0.370	0.470	0.550	0.560	0.590	0.640	0.680	0.690
50% of Cumulative Decrease		0.085	0.110	0.185	0.235	0.275	0.280	0.295	0.320	0.340	0.345
Primary TNAV/100 ²	851,771	89,964,001	93,661,600	97,557,900	101,323,601	103,350,100	105,417,100	107,525,500	109,676,000	111,869,500	114,106,890
Subtotal: PAYGO Levy based on 50% of Cumulative Secondary Tax Rate Decrease Since FY19-20 ³		7,646,940	10,302,776	18,048,212	23,811,046	28,421,278	29,516,788	31,720,023	35,096,320	38,035,630	39,366,877
Primary Tax Levy TNAV Increase from Prior Year ⁴		19,953,148	15,438,883	16,232,546	15,691,878	8,452,440	8,621,489	8,793,919	8,969,797	9,149,193	9,332,177
Subtotal: PAYGO Levy based on 50% of Primary Tax Levy TNAV Increase from Prior Year ⁵		9,976,574	7,719,442	8,116,273	7,845,939	4,226,220	4,310,745	4,396,960	4,484,899	4,574,597	4,666,088
Total: Total PAYGO Levy ⁶		17,623,514	18,022,218	26,164,485	31,656,985	32,647,498	33,827,533	36,116,982	39,581,219	42,610,227	44,032,965

¹ Secondary property tax rate necessary to pay principal and interest payments for all County outstanding general obligation bond debt, per \$100 of Taxable Net Assessed Value.

² Assumes the primary tax base (Taxable Net Assessed Value/TNAV) grows between 5.62% and 3.86% for FY20-21 through FY23-24, and 2% thereafter, with a collection rate of 97.5687%.

³ 50% of the cumulative decrease in the secondary tax rate since FY19-20 multiplied by the applicable year's primary property tax base (TNAV) divided by 100.

⁴ Primary tax levy increase from prior year assuming the primary tax base (TNAV) grows between 5.62% and 3.86% for FY20-21 through FY23-24, and 2% thereafter, with a collection rate of 97.5687%.

⁵ As the primary property tax base grows, 50% of the growth per year is dedicated to PAYGO.

⁶ Total annual PAYGO component of the primary property tax levy based on the sum of subtotals.

**Pay As You Go General Fund Primary Tax Levy
10 Years - 60% Secondary & 60% Growth**

	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24	FY 24-25	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30
Debt Service Secondary Property Tax Rate per \$100 TNAV ¹	0.690	0.520	0.470	0.320	0.220	0.140	0.130	0.100	0.050	0.010	-
Debt Service Secondary Property Tax Rate Decrease	-	0.170	0.050	0.150	0.100	0.080	0.010	0.030	0.050	0.040	0.010
Cumulative Decrease Since FY19-20		0.170	0.220	0.370	0.470	0.550	0.560	0.590	0.640	0.680	0.690
60% of Cumulative Decrease		0.102	0.132	0.222	0.282	0.330	0.336	0.354	0.384	0.408	0.414
Primary TNAV/100 ²	85,177,100	89,964,001	93,661,600	97,557,900	101,323,601	103,350,100	105,417,100	107,525,500	109,676,000	111,869,500	114,106,890
Subtotal: PAYGO Levy based on 60% of Cumulative Secondary Tax Rate Decrease Since FY19-20 ³		9,176,328	12,363,331	21,657,854	28,573,255	34,105,533	35,420,146	38,064,027	42,115,584	45,642,756	47,240,252
Primary Tax Levy TNAV Increase from Prior Year ⁴		19,953,148	15,438,883	16,232,546	15,691,878	8,452,440	8,621,489	8,793,919	8,969,797	9,149,193	9,332,177
Subtotal: PAYGO Levy based on 60% of Primary Tax Levy TNAV Increase from Prior Year ⁵		11,971,889	9,263,330	9,739,528	9,415,127	5,071,464	5,172,893	5,276,351	5,381,878	5,489,516	5,599,306
Total: Total PAYGO Levy ⁶		21,148,217	21,626,661	31,397,381	37,988,382	39,176,997	40,593,039	43,340,378	47,497,462	51,132,272	52,839,559

¹ Secondary property tax rate necessary to pay principal and interest payments for all County outstanding general obligation bond debt, per \$100 of Taxable Net Assessed Value.

² Assumes the primary tax base (Taxable Net Assessed Value/TNAV) grows between 5.62% and 3.86% for FY20-21 through FY23-24, and 2% thereafter, with a collection rate of 97.5687%.

³ 60% of the cumulative decrease in the secondary tax rate since FY19-20 multiplied by the applicable year's primary property tax base (TNAV) divided by 100.

⁴ Primary tax levy increase from prior year assuming the primary tax base (TNAV) grows between 5.62% and 3.86% for FY20-21 through FY23-24, and 2% thereafter, with a collection rate of 97.5687%.

⁵ As the primary property tax base grows, 60% of the growth per year is dedicated to PAYGO.

⁶ Total annual PAYGO component of the primary property tax levy based on the sum of subtotals.

**Pay As You Go General Fund Primary Tax Levy
10 Years -100% Secondary & 50% Growth**

	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24	FY 24-25	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30
Debt Service Secondary Property Tax Rate per \$100 TNAV ¹	0.690	0.520	0.470	0.320	0.220	0.140	0.130	0.100	0.050	0.010	-
Debt Service Secondary Property Tax Rate Decrease	-	0.170	0.050	0.150	0.100	0.080	0.010	0.030	0.050	0.040	0.010
Cumulative Decrease Since FY19-20		0.170	0.220	0.370	0.470	0.550	0.560	0.590	0.640	0.680	0.690
100% of Cumulative Decrease		0.170	0.220	0.370	0.470	0.550	0.560	0.590	0.640	0.680	0.690
Primary TNAV/100 ²	85,177,100	89,964,001	93,661,600	97,557,900	101,323,601	103,350,100	105,417,100	107,525,500	109,676,000	111,869,500	114,106,890
Subtotal: PAYGO Levy based on 100% of Cumulative Secondary Tax Rate Decrease Since FY19-20 ³		15,293,880	20,605,552	36,096,423	47,622,092	56,842,555	59,033,576	63,440,045	70,192,640	76,071,260	78,733,754
Primary Tax Levy TNAV Increase from Prior Year ⁴		19,953,148	15,438,883	16,232,546	15,691,878	8,452,440	8,621,489	8,793,919	8,969,797	9,149,193	9,332,177
Subtotal: PAYGO Levy based on 50% of Primary Tax Levy TNAV Increase from Prior Year ⁵		9,976,574	7,719,442	8,116,273	7,845,939	4,226,220	4,310,745	4,396,960	4,484,899	4,574,597	4,666,088
Total: Total PAYGO Levy ⁶		25,270,454	28,324,994	44,212,696	55,468,031	61,068,775	63,344,321	67,837,005	74,677,539	80,645,857	83,399,843

¹ Secondary property tax rate necessary to pay principal and interest payments for all County outstanding general obligation bond debt, per \$100 of Taxable Net Assessed Value.

² Assumes the primary tax base (Taxable Net Assessed Value/TNAV) grows between 5.62% and 3.86% for FY20-21 through FY23-24, and 2% thereafter, with a collection rate of 97.5687%.

³ 100% of the cumulative decrease in the secondary tax rate since FY19-20 multiplied by the applicable year's primary property tax base (TNAV) divided by 100.

⁴ Primary tax levy increase from prior year assuming the primary tax base (TNAV) grows between 5.62% and 3.86% for FY20-21 through FY23-24, and 2% thereafter, with a collection rate of 97.5687%.

⁵ As the primary property tax base grows, 50% of the growth per year is dedicated to PAYGO.

⁶ Total annual PAYGO component of the primary property tax levy based on the sum of subtotals.

ATTACHMENT 3



MEMORANDUM

Public Works Administration

DATE: September 13, 2019

TO: C.H. Huckelberry
County Administrator

FROM: Yves Khawam 
Assistant County Administrator for
Public Works

RE: Road Repair Program

As you are acutely aware, the unincorporated Pima County surface transportation principal priorities have shifted in the last twenty years from needed capacity enhancement to maintenance of pavements and other roadway infrastructure. To accommodate the effective and efficient implementation of this change, a complete restructuring of the Pima County Department of Transportation (DOT) budget, organizational units, processes and technology support occurred in Fiscal Year 2018/2019 (FY19). The department activities for this transition year have been captured in an annual report, soon to be distributed you.

The DOT restructuring effort has resulted in significant operational savings, which coupled with 1997 Highway User Revenue Fund (HURF) Bond debt service reductions and increased State-shared revenues provide a reliable revenue stream to fund routine County roadway pavement preservation. However, this amount is not sufficient to mitigate the backlog of repair work needed to significantly raise the overall network pavement condition. The DOT FY20 operational budget contribution to road repair totals \$15 million, with an additional \$6 million allocation derived from repurposed 1997 HURF Bonds and \$5 million contributed from the General Fund for a total of \$26 million.

The FY20 \$26 million amount of road repair funding will result in an overall network Pavement Condition Index (PCI) improvement of 10 percent over that of FY19. PCI is a numerical index ranging between 0 and 100 which is used to indicate the general condition of a pavement with a rating of 100 being best. Table 1 indicates the overall status of road conditions following completion of the construction work programed for FY20. Seventy percent of roads were in poor and failed condition at end of FY19 and with the work programed for FY20, that number will be reduced to 63 percent. These improvements elevate 7 percent of roads out of poor/failed condition and provide a 10 percent overall network PCI enhancement. This level of progress in a single year demonstrates the County's ability to mitigate all failed and poor pavements with an allocation of additional funding.

Table 1
Road Conditions Following Programed FY 2019/2020 Work

Condition	PCI	Arterial/Collector		Local		Total	
		Miles	%	Miles	%	Miles	%
Very Good	70-100	300	44%	111	9%	411	22%
Good	50-69	106	17%	188	15%	294	15%
Poor	25-49	107	17%	439	36%	546	29%
Failed	0-24	155	21%	498	40%	653	34%
Total		668	100%	1,236	100%	1,904	100%

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The DOT operational pavement repair and maintenance funding stream will in the future be sufficient to maintain all unincorporated County paved public roads in good condition. However, a significant injection of funding is still required to clear the backlog of disrepair. Despite previous County efforts to secure additional funding sources, it appears there are no other options at this point than to allocate General Fund monies to fill this gap. To this end, \$5 million was allocated from the General Fund for FY20 and there is discussion regarding allocating additional pay-as-you-go (PAYGO) funding to road repair annually in \$5 million increments, up to a maximum of \$25 million per year until such time that this funding is no longer needed.

The DOT has run analyses within the StreetSaver pavement preservation model based on projected DOT operational funds allocated for road repair and the potential General Fund PAYGO allocations. The model considers pavement construction section, construction date, past treatment dates and last condition rating to optimize a recommendation of pavement sections to be treated based on allocated budget amounts and road selection prioritization criteria. For arterial/collector functional class roadways, the sole criterion used is to optimize the pavement condition rating based on available funding. This approach is used to preserve the investment made in the arterial/collector network which serves as the backbone of regional mobility and operates with higher speeds, volume, risk, and community-wide value than local roads.

The local street network, however, operates at lower levels in each of these categories. As such and due to the large number of failed roadways, additional criteria for local road repair selection is warranted. The Pima County Transportation Advisory Committee (PTAC) approved criteria for the selection of FY20 local road repairs and is actively soliciting public input via meetings and survey regarding criteria for selection and repair of local paved roads for FY21. It is expected that when the PCI of local roads is raised to an acceptable threshold, these roads too will be selected for preservation treatment solely using StreetSaver return on investment criterion.

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Table 2
Road Repair Funding and Road Conditions

Year	Transportation Department Funding	Potential PAYGO Allocation	Total Funding	Network Pavement Condition Index	Network Pavement Condition Index Improvement From FY18/19
FY19/20	21,000,000	5,000,000	26,000,000	42	10%
FY20/21	16,000,000	10,000,000	26,000,000	43	12%
FY21/22	16,000,000	15,000,000	31,000,000	45	16%
FY22/23	21,000,000	20,000,000	41,000,000	48	24%
FY23/24	23,000,000	25,000,000	48,000,000	52	33%
FY24/25	29,000,000	25,000,000	54,000,000	57	44%
FY25/26	30,000,000	25,000,000	55,000,000	62	56%
FY26/27	31,000,000	25,000,000	56,000,000	67	68%
FY27/28	35,000,000	25,000,000	60,000,000	71	79%
FY28/29	38,000,000	25,000,000	63,000,000	77	94%
FY29/30	41,000,000	25,000,000	66,000,000	80	99%
TOTAL	301,000,000	225,000,000	526,000,000		

The StreetSaver analysis reflected in Table 2 demonstrates that the described level of anticipated funding is sufficient to raise the County network-wide PCI to 80 by FY30. A condition rating of 80 is squarely within the range of “very good” and is the number many jurisdictions target as an ideal level for pavement maintenance. The table breaks out the PCI increase per year over the next 10 years with corresponding pavement condition improvement. The level of improvement by year is not linear in that when a larger number of roads degrade to a threshold needing a costly treatment in a given year, the available budget capacity for that year yields a lower overall PCI increase.

Table 3 reflects projected road conditions in FY30 subject to the above discussed potential budget allocations. The StreetSaver model shows that there would be no failed roads at the end of FY30 and only 8 percent of poor roads. These remaining poor roads would remain in that state for only a short time prior to receiving a treatment and elevating them back to “very good” through the normal maintenance cycle.

Table 3
Stabilized Road Conditions Following Projected FY 2029/2030 Work

Condition	PCI	Arterial/Collector		Local		Total	
		Miles	%	Miles	%	Miles	%
Very Good	70-100	556	83%	1,021	83%	1,577	83%
Good	50-69	77	12%	88	7%	165	9%
Poor	25-49	35	5%	128	10%	163	8%
Failed	0-24	0	0%	0	0%	0	0%
Total		668	100%	1,236	100%	1,904	100%

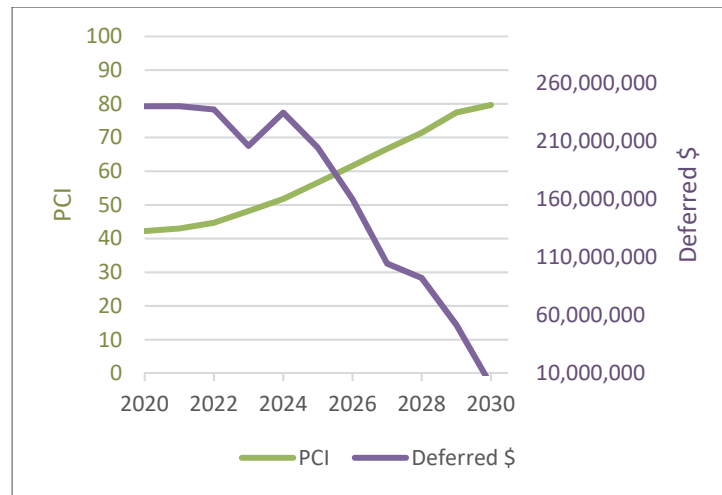
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Figure 1 shows model output that further demonstrates that FY30 is the breakpoint at which the repair backlog is mitigated, showing only a \$10 million remaining deficit of regular cycle maintenance. That would be the point at which PAYGO funding for road repair could be discontinued with subsequent pavement maintenance costs entirely covered through the DOT operations fund.

Figure 1
PCI vs Deferred Annual Maintenance



As you are also aware, the Regional Transportation Authority is beginning to discuss funding priorities for the next 20-year regional transportation plan. If road repair funding is included in that plan, and if the plan and funding is approved by voters, the projected PAYGO road repair allocations captured in Table 2 could be adjusted.

In summary, the County is making significant progress in implementing a road repair program through the restructuring of the DOT, implementation of a pavement preservation modelling tool to project condition improvements based on budget allocations, and the timely delivery of programed work. These combined elements demonstrate the County's ability to raise the average network PCI to "good" by FY24, "very good" by FY28, and attain sustainably-funded maintenance through transportation dedicated State-shared revenues by FY30. However, plan implementation is entirely contingent on a 10-year funding source such as the General Fund PAYGO at the allocation levels described above to temporarily supplement DOT pavement preservation funds.

c: Carmine DeBonis, Jr., Deputy County Administrator for Public Works
Ana Olivares, Director, Transportation Department



MEMORANDUM

Date: September 10, 2019

To: Dr. Yves Khawam
Assistant County Administrator
for Public Works

From: C.H. Huckelberry
County Administrator 

Re: **Road Repair Program**

Please prepare an appropriate analysis, including detailed information, to demonstrate the County is making significant progress in implementing a 10-year road repair program. Also, ensure enough information is documented to demonstrate that if the Board of Supervisors continues with the proposed pay-as-you-go program associated with the increasing road repair contributions that the number of roadways requiring repair will dramatically decrease within 10 years.

The analysis on this subject will be transmitted to the Board.

CHH/anc

c: Carmine DeBonis, Jr., Deputy County Administrator for Public Works
Ana Olivares, Director, Transportation Department