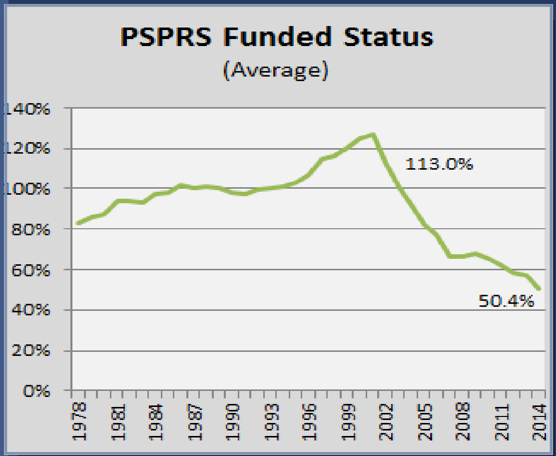
Photo by Gage Skidmore

2016 CSA Legislative Priorities

- Reform the Public Safety Personnel Retirement System (PSPRS)
- Eliminate the Arizona Department of Juvenile Corrections (ADJC) Cost Shift & Reform the Arizona Juvenile Justice System
- Find a Mutually Beneficial Solution to the 1% Property Tax Cap Liability
- Eliminate the Arizona Department of Revenue (ADOR) Cost Shift
- Eliminate County Payments for Sexually Violent Persons (SVP)
- Reestablish the County Share of Lottery Revenues as a Statutory Distribution
- Eliminate the Requirement for Counties to Pay for the Presidential Preference Election (PPE)
- Continue to Include County Flexibility Language in the State Budget
- Restore the Highway User Revenue Fund (HURF) & Increase Investment in Transportation Infrastructure



Law enforcement and fire professionals as well as county taxpayers deserve a stable and effective public safety retirement plan. The state must act to reform the system.

Reform the Public Safety Personnel Retirement System (PSPRS)

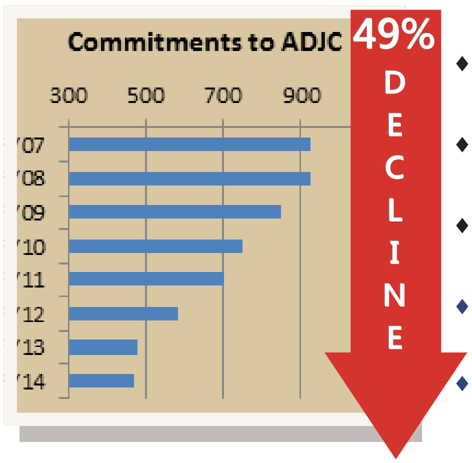
Need for Reform

Over the past 10 years, PSPRS unfunded liabilities grew from $0 to $6.2 billion, causing employer contribution rates to skyrocket. Currently, 10 counties pay rates between **40% and 75%.**

- The high costs of PSPRS is impacting local hiring of law enforcement, crowding out other important expenditures and putting pressure on property tax rates.
- A 2015 Auditor General report found the ability of PSPRS to "meet future needs is deteriorating because of required annual permanent benefit increases and lower-than-expected investment returns."
- Absent action, PSPRS will continue to degrade in stability, which public safety personnel rely on, while driving up costs to taxpayers in the form of contribution rates.

Reform the Arizona Juvenile Justice System

- Eliminate County Mandate to fund ADJC -



- Despite dramatic decline in youths referred, ADJC's budget is a staggering $43.1 million per year, or approx. $89,000 per youth.
- The FY16 budget shifted 25% of the cost of ADJC to the counties, despite the board of supervisors having no control over which youths are committed.
- Counties already pay millions locally for detention and court costs associated with juveniles.
- More than 98% of juvenile referrals are treated locally. Only about 1.7% go to ADJC. These referrals often have significant mental health issues.
- **Diverting county resources to ADJC violates good management principals and inappropriately crowds out funding for other local priorities.**

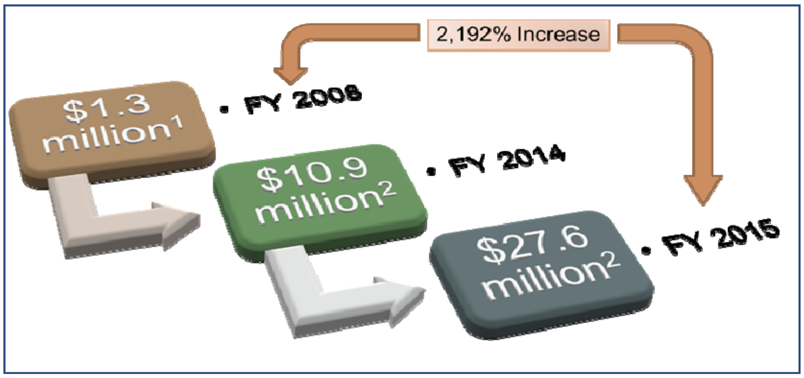
State lawmakers must act to reform the system

- Eliminate the county cost share to ADJC.
- Investigate the possibility of county probation departments absorbing the ADJC parole function eliminating a portion of the agency's budget.
- Work with counties, the courts, and other stakeholders to evaluate ADJC and the Juvenile Justice system to identify efficiencies, reform opportunities and cost saving measures.

Fix 1% Tax Cap Liability Shift

Since the 1980s a provision of the Arizona Constitution has limited the total primary property taxes on any residential property to 1% of the property's assessed value, or a $10 per $100 Net Assessed Value (NAV) tax rate.

Estimated Cost to the State from 1% Backfill



Background

Five separate entities with elected governing boards have the authority to levy primary property taxes:

• The State • Counties • Community colleges • Cities & Towns • School Districts

- Historically, the state honored the 1% provision by subsidizing schools to lower aggregate residential primary property taxes.
- Last year, the state capped its liability and shifted the responsibility of subsidizing schools to the local jurisdictions. The policy creates unlimited fiscal exposure, financial uncertainty, and conflict between unrelated jurisdictions.
- In the past, the 1% cap liability has risen and fallen with the economy. However, due to state policies lowering the assessment ratios and capping NAV growth (Prop. 117), growth will no longer solve the problem.

If the state does not act, more jurisdictions will be pulled into this liability pool over time creating budgetary chaos at all levels of government.

-Eliminate- SVP Payments

Sexually Violent Persons (SVP's) are offenders who served their time with the Arizona Department of Corrections but are not yet ready to re-enter society. The state's SVP program, housed at the Arizona State Hospital (ASH), provides treatment in a high security setting. The program is entirely operated by the state with no county consultation or fiscal oversight.

For the first time, in FY10, the state budget required counties to pay a portion of SVP costs.

- As of June 2015 this shift has cost county taxpayers **$23.8 million.**
- In FY16, counties are required to pay 31% which amounts to an estimated **$3.4 million.**

It is bad policy to force counties to fund state agencies, over which they have no control. The state should again take full responsibility for these state programs.

-Eliminate- ADOR Cost Shift

Beginning in FY16, state law mandates counties to pay a portion of the operating budget of the Arizona Department of Revenue. The current structure calculates an amount to be paid by proportionally allocating $21 million based on seemingly arbitrary revenue streams among counties, cities & towns, and COG's. The payments are further allocated based on population, removing any semblance of fairness.

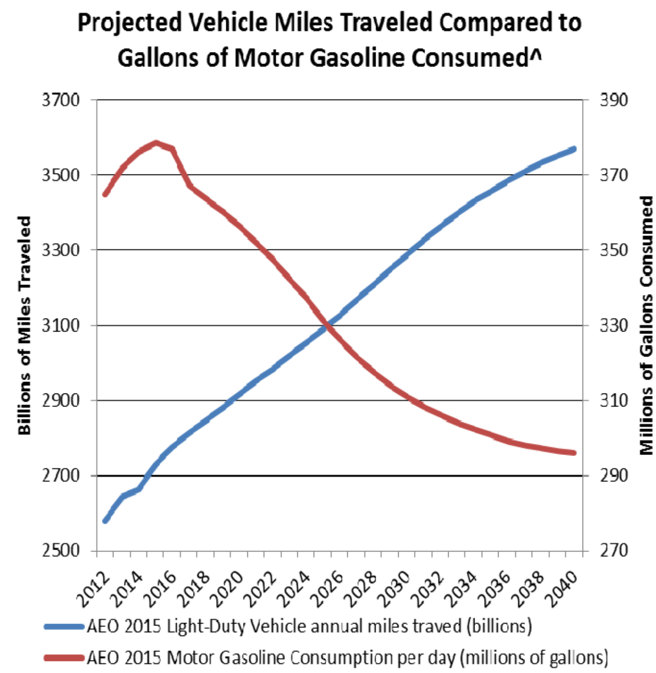
- The FY16 Executive proposal sought to charge counties and cities for their portion of shared revenue to collect a total of **$14.1 million**.
- The enacted budget increased this to **$21 million** and modified it to charge counties for several taxes they do not collect, including MAG and PAG.
- A later bill fixed several problems with this provision, including requiring MAG and PAG to pay for their own collections.

Increase Investment in Transportation Infrastructure

In addition to the restoration of HURF, CSA urges the legislature to work with stakeholders to identify and enact revenue enhancements for the existing HURF distribution system, and to pursue policies that improve efficient utilization of transportation resources.

County officials are alarmed by the deteriorating condition of transportation infrastructure and the weakening ability of Highway User Revenue Fund (HURF) resources to meet local needs. Absent action, statewide infrastructure continues to degrade:

- County roadways are critical for economic development, public safety and quality of life in Arizona;
- County road construction has largely ceased and maintenance levels have been reduced substantially;
- Lack of resources and liability concerns forced counties to designate more roads as “primitive;” and,
- Reduced and limited maintenance leads to dangerous road conditions, damaged vehicles, and more costly road rehabilitation and reconstruction.



^U.S. Energy Information Administration (EIA) Annual Energy Review 2011; Reference Case Tables A7 & A11.

Reestablish the County Share of Lottery Revenues

Counties need financial stability. Reestablishing the county lottery distribution in statute will reflect a commitment to provide these resources annually, and provide much need budgeting stability for the counties

For more than 20 years, all 15 counties received a share of lottery revenues to partially compensate for performing state mandated functions.

- The county share was eliminated in FY11.
- A partial “in-lieu” appropriation restored some of these funds in FY 2014 and again in FY 2015.
- During the FY 2016 this appropriation was limited to just 10 counties.

Counties have no flexible taxing authority to make up the revenue loss; authorities are capped or formulaic.

Eliminate the Requirement for Counties to Pay for the PPE

During the 2015 Legislative Session, the cost to fund the Presidential Preference Election (PPE) was shifted in part to counties, by only reimbursing the counties at a rate of $1.25 per active registered voter, an amount originally used for the 1996 PPE.

- PPE is solely for the benefit of the political parties.
- This is a mandate imposed by state lawmakers, it should be state funds that pay for it.

The State should eliminate, fully fund, or require the political parties to pay for the PPE

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