

# County Budget and Audit Guide

County Supervisors Association

# 2017

This document provides counties a brief overview of budget and audit requirements and timelines, as well as outlines new legislation related to county financial operations.

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## Summary of Changes

Each year CSA will update this document with changes from the preceding legislative session. This summary will outline any changes impacting county financial operations. County managers and finance directors are encouraged to review this section. For FY 2018, these changes include:

- **Tax Election Timing:** [SB 1152 tax authorization; consolidated elections dates \(Lesko\)](#) Requires elections for the purpose of authorizing the assessment of transaction privilege tax (TPT) by counties, cities, or towns to be held only on the first Tuesday after the first Monday in November of an even-numbered year. Becomes effective on January 1, 2018.
- **Bonding:** [HB 2011 bonds; levy; net of cash \(Ugenti-Rita\)](#) Requires a county or municipal bond levy to include prior year remaining funds in excess of ten percent of the current year principal and interest payments.  
[HB 2452 bonding; amortized premium; segregated fund \(Norgaard\)](#) Specifies provisions for political subdivisions, including counties and special districts, that govern general obligation (GO) bond net premiums, and requires GO bond net premiums used to be amortized for debt limitation purposes on a pro rata basis.
- **TNT Changes:** [HB 2286 truth in taxation; increase notice \(Barton\)](#) Requires a political subdivision, including counties and special districts, to provide public notice of the intent to increase the primary property tax levy over the prior year levy. Requires the political subdivision to publish the proposed total tax amount, the total tax amount without a change, and the additional cost on a \$100,000 home, as opposed to just the proposed rate increase.
- **Retirement Plans:** [SB 1063 PSPRS; risk pool \(Lesko\)](#) Establishes the Arizona Public Safety Employer Risk Pool (Pool) and defines pool membership. Creates a Retiree Pool Account in the Arizona Public Safety Personnel Retirement Fund for the purpose of sharing the actuarial liability attributed to uncontrollable costs for the employers. The Pool contains new members who are hired on or after July 1, 2017. **An emergency measure that became effective May 1, 2017.**  
[SB 1442 corrections officer retirement plan; modifications \(Lesko\)](#) Requires employees, with a few exceptions, currently eligible for the Corrections Officer Retirement Plan (CORP), including county employees hired on or after July 1, 2018, to belong to the PSPRS Defined Contribution Plan. **Will require ballot approval of a constitutional exception to retirement benefit changes necessary for the replacement of permanent benefit increases with cost of living adjustments.**  
[HB 2485 EORP; PSPRS; CORP; modifications \(John\)](#) Modifies the Arizona Elected Officials' Retirement Plan (EORP), Arizona Correction Officers' Retirement Plan (CORP), and components of the Arizona Public Safety Personnel Retirement Plan (PSPRS). **An emergency measure that became effective May 3, 2017.**
- **County Finance:** [HB 2073 government deposits; investment; financial institutions \(Weninger\)](#) Expands the authority to invest revenues with an eligible depository to additional entities, including a county water authority, an electrical district, and a hospital district.
- **GPLET Reform:** [HB 2213 GPLET reform; K-12 taxes \(Leach\)](#) Amends the administrative and reporting requirements of GPLET (government property lease excise tax) leases for government lessors, including counties. Specifies that a county assessor shall notify a government lessor subject to payment of a GPLET and that GPLET payment receipts issued by a county treasurer are issued to the government lessor.
- **Flexibility Language:** The FY 2018 state budget continued a restriction to the flexibility language provision, limiting the use of the non-shift-linked flexibility to \$1.25 million per county.

## Budget and Taxation

### **Annual Statements to State Treasurer**

[A.R.S. § 11-663](#) requires each BOS, prior to their first regular meeting in January, to solicit a statement from the clerk of the board showing the indebtedness of the county, both funded and floating, the amount of each class of indebtedness and their interest rates and the amount of money in the county treasury subject to payment of the indebtedness. The statement must also describe and give a valuation for all the property owned by the county and include the county's tax rate. The statement will be filed with the BOS at the January meeting and forwarded to the State Treasurer.

**Assessment Roll:** By February 10<sup>th</sup>, the county assessor will send the values required to compute the levy limit to the Property Tax Oversight Commission (PTOC) and the county board of supervisors (BOS). PTOC must approve any changes to the values after February 10<sup>th</sup>. The values will include the final equalized valuation of all property, minus any estimated exemptions, that appear on the tax roll for current tax year. These values will be used for property tax decisions by the board.

The specific requirements for the assessment roll are found in [A.R.S. § 42-17052](#).

**Levy Limit:** [Article 9, Section 19, Arizona Constitution](#) limits counties' ability to increase their primary property tax levy over the preceding fiscal year to not more than 2 percent plus an amount attributable to new construction.

found in [A.R.S. § 42-17051](#).

The specific requirements for the levy limit are

**Expenditure Limit Calculation:** [Article 9, Section 20, Arizona Constitution](#), establishes the expenditure limitation for counties and cities and towns. The limit prohibits counties from increasing qualified expenditures over their FY 1980 level adjusted for population growth and inflation. The Economic Estimates Commission (EEC) is responsible for calculating the expenditure limit for each jurisdiction on an annual basis. The EEC issues preliminary expenditure limit calculations prior to February 1 (usually in mid-January) of each year and final expenditure limit calculations prior to April 1 (usually in mid-March) of each year.

Expenditure limit calculations can be found by [clicking here](#).

**Tentative Budget:** By the third Monday in July of each year the board of supervisors must prepare a statement of the county's financial affairs for the preceding fiscal year (estimates of actuals may be used to account for the final months of the fiscal year) and an estimate of amounts required to meet the county's financial needs for the current fiscal year. This estimate, known as the operating budget and a summary schedule of estimated expenditures and revenues will be entered in the minutes of the governing body and must be posted at the county administrative offices and county website no later than seven business days after the estimates are initially presented to the governing body. The



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### Proposed Business Taxes or Fees Notifications

[A.R.S. § 11-251.13](#) states a county BOS cannot levy or increase taxes or fees on a business unless they provide written notice of new or increased taxes on the homepage of the county's website at least sixty days before the date the proposed new tax or fee is approved or disapproved by the board. The board must demonstrate that the taxes or fees are imposed pursuant to statute. The notification requirements do not apply to fees adopted pursuant to section 11-1102 or taxes adopted pursuant to section 42-17107 or 48-254.

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estimates and a public hearing notice, along with information about where copies of the estimates can be found, must be published once a week for at least two consecutive weeks after the estimates are tentatively adopted in the official newspaper of the county, if there is one, and, if not, in a general circulation newspaper.

The specific requirements for the tentative budget can be found in [A.R.S. § 42-17101](#).

County budget forms (used for both tentative and final budgets) can be found by [clicking here](#).

**Final Budget:** the final budget must be completed by the third Monday in August of each year. The county board of supervisors will determine and adopt estimates of proposed expenditures. The adopted estimates constitute the budget of the county for the current fiscal year. The total amounts that are to be spent in the

budget must not exceed the total amounts of expenditures described in the tentative budget. A complete copy of the adopted budget must be posted on the county website no later than seven business days after final adoption and retained on the website for sixty months.

The specific requirements for the final budget can be found in [A.R.S. § 42-17105](#).

**Tax Rates:** Using the values provided by the Assessor and the Department for Revenue, the BOS will set primary and secondary property tax rates. All tax rates are imputed as a rate per \$100 of Net Assessed Value (NAV) and rounded to the fourth decimal place. The tax rates, when applied to a jurisdiction's NAV, will produce the entire amount intended to be raised by direct property taxation for that year. Within three days after a county determines its final levies, the county treasurer will notify PTOC of the amount of primary property taxes levied. Any amount of property tax levied by a county in support of an accommodation school will be considered to be part of the county's primary levy.

The specific requirements for tax rates can be found in [A.R.S. § 42-17151](#).

## Truth in Taxation

**General Fund:** By February 10 of each year, the county assessor will transmit and certify to PTOC and to the BOS the total net assessed values that are required to compute the levy limit. If the proposed primary property tax levy, excluding amounts that are attributable to new construction, is greater than the amount levied by the county in the preceding tax year, the county governing body will publish a public notice. The public notice must be published twice in a newspaper of general circulation in the county. The first publication must be at least fourteen but not more than twenty days before the date of the public hearing. The second publication must be at least seven but not more than ten days before the date of the hearing. The notice cannot be published in the classified or legal advertising section of the newspaper in which it is published and it must be at least one-fourth page in size and surrounded by a solid black border at least one-eighth inch in width. The “truth in taxation hearing notice of tax increase” headline must be in at least eighteen-point font. (Figure 1 shows an example)

Instead of publishing the TNT notice, the BOS may mail the notice to all registered voters in the county at least ten but not more than twenty days before the date of the hearing. In addition to publishing or mailing the TNT notice the BOS must issue a press release containing the notice.

The BOS is required to consider a motion to levy the increased property taxes by roll call vote and also must hold the TNT hearing on or before the adoption of the county budget. **NOTE: Laws 2016, Second Regular Session, Chapter 173 amended statute to require a motion to levy increased property taxes to be approved by a unanimous roll call vote of the district board “if the proposed levy, exclusive of increased property taxes received from new construction, constitutes an increase over the preceding tax year’s levy by fifteen percent or more.”** Within three days after the hearing, the BOS will mail a copy of the notice, a statement of its publication or mailing and the result of the BOS’s vote to PTOC. If the BOS fails to comply with the TNT requirements, the BOS cannot fix, levy or assess an amount of primary property taxes that exceeds the preceding year’s amount, except for amounts attributable to new construction.

The specific requirements of the General Fund TNT notice can be found in [A.R.S. § 42-17107](#).



## Truth in Taxation Hearing

### Notice of Tax Increase

In compliance with section 42-17107, Arizona Revised Statutes, \_\_\_\_\_ (name of county) is notifying its property taxpayers of \_\_\_\_\_ (name of county)'s intention to raise its primary property taxes over last year's level. \_\_\_\_\_ (name of county) is proposing an increase in primary property taxes of \$\_\_\_\_\_ or \_\_\_\_%.

For example, the proposed tax increase will cause \_\_\_\_\_ (name of county)'s primary property taxes on a \$100,000 home to be \$\_\_\_\_\_ (total proposed taxes including the tax increase). Without the proposed tax increase, the total taxes that would be owed on a \$100,000 home would have been \$\_\_\_\_\_.

This proposed increase is exclusive of increased primary property taxes received from new construction. The increase is also exclusive of any changes that may occur from property tax levies for voter approved bonded indebtedness or budget and tax overrides.

All interested citizens are invited to attend the public hearing on the tax increase that is scheduled to be held \_\_\_\_\_ (date and time) at \_\_\_\_\_ (location).

Figure 1: Truth in Taxation Notice

**Truth in Taxation for Countywide Secondary Districts:** NOTE: Based on Chapter 198, Laws 2017 the language for the Notices of Tax Increase in Figures 1 & 2 have changed since last year. By February 10 of the tax year, the county assessor will transmit the total net assessed values needed to compute levies to the governing body of each county **flood control** district, county free **library** district, county **jail** district and **public health** services district. If the proposed secondary property tax levy of the special taxing district, minus amounts attributable to new construction, is greater than the amount levied by the special taxing district in the preceding tax year than the governing body will publish a public notice. The public notice must be published twice in a newspaper of general circulation in the county and the first publication must be at least fourteen but not more than twenty days before the date of the public hearing. The second publication must be at least seven but not more than ten days before the date of the hearing. The notice cannot be published in the classified or legal advertising section of the newspaper in which it is published and it must be at least one-fourth page in size and surrounded by a solid black border at least one-eighth inch in width. The "truth in taxation hearing notice of tax increase" headline must be in at least eighteen-point font. (Figure 2 shows an example)

Instead of publishing the TNT notice, the governing body can mail the notice to all registered voters in the special taxing district at least ten but not more than twenty days before the date of the hearing on the tax estimates. The governing body is also required to issue a press release containing the truth in taxation notice.

If the governing body fails to comply with the above requirements they cannot fix, levy or assess an amount of secondary property taxes that exceeds the preceding year's amount, except for amounts attributable to new construction.

The specific requirements for the secondary district TNT can be found in [A.R.S. § 48-254](#).

## Truth in Taxation Hearing

### Notice of Tax Increase

In compliance with section 48-254, Arizona Revised Statutes, \_\_\_\_\_ (name of special taxing district) is notifying its property taxpayers of \_\_\_\_\_ (name of special taxing district)'s intention to raise its secondary property taxes over last year's level. \_\_\_\_\_ (name of special taxing district) is proposing an increase in secondary property taxes of \$ \_\_\_\_\_ or \_\_\_\_%.

For example, the proposed tax increase will cause \_\_\_\_\_ (name of special taxing district)'s secondary property taxes on a \$100,000 home to be \$ \_\_\_\_\_ (total proposed taxes including the tax increase). Without the proposed tax increase, the total taxes that would be owed on a \$100,000 home would have been \$ \_\_\_\_\_.

This proposed increase is exclusive of increased secondary property taxes received from new construction. The increase is also exclusive of any changes that may occur from property tax levies for voter-approved bonded indebtedness.

All interested citizens are invited to attend the public hearing on the tax increase that is scheduled to be held \_\_\_\_\_ (date and time) at \_\_\_\_\_ (location).

Figure 2: Truth in Taxation Notice



## TNT Calculation

$$TNT\ Rate = \frac{Previous\ Year\ Levy}{(Current\ Year\ NAV - New\ Construction)}$$

**Example:**

Previous year Tax Rate: \$1.0000 per \$100NAV  
 Previous year NAV: \$100,000,000  
 Previous year levy ( $L_{py}$ ): \$1,000,000  
 Current year NAV ( $NAV_{cy}$ ): \$110,000,000  
 New Construction (NC): \$5,000,000  
 Current Year NAV subject to taxation in the previous year: \$105,000,000

$$TNT\ Rate = \frac{L_{py}}{(NAV_{cy} - NC)} = \frac{\$1,000,000}{\$110,000,000 - \$5,000,000}$$

$$TNT\ Rate = \$0.9524\ per\ \$100\ NAV$$

## The Audit Process

On July 1 each county will begin the audit process for the prior fiscal year. The audit, which counties must file with the Auditor General, is due within 9 months of the end of the fiscal year (March 31). The related financial statements must be posted in a prominent location on the county's official website within seven business days after filing them with the Auditor General. These statements must be retained and accessible on the county's website for at least 60 months.

If a county's audit is not submitted by March 31, the county must post a notice of pending financial statement filing, as provided by the Auditor General, on its website until the audit is posted. Additionally, if a county's audit is not completed and filed on or before the adoption of the county's final budget for the subsequent fiscal year then the budget must include the notice of pending financial statement filing.

A copy of the notice must also be sent to the Auditor General, the Speaker of the House of Representatives and the President of the Senate.

The specific requirements of the audit and posting requirements can be found in [A.R.S § 11-661](#) and [A.R.S. § 41-1279.07](#).

### Special Taxing District Report

[A.R.S. § 11-251.07](#) requires each BOS to compile a report, by October 1 of each year, of all the special taxing districts existing under Title 48 in that county, with the exception of those existing under Title 48, chapter 4 and chapter 6, articles 1 and 2. For each special taxing district the report will include the date of formation, total assessed valuation of the district, the district's tax rate and a number of other pieces of information. If a special taxing district's boundaries changed during the preceding year the county must submit a current map of the district's boundaries and a boundary change impact statement if required.

### **Annual Expenditure Limit Report (AELR)**

By July 31 of each year, each county must provide the Auditor General the name of the chief financial officer responsible for submitting the AELR. The AELR must be filed with the Auditor General within 9 months of the end of the fiscal year (March 31).

The specific requirements of the AELR can be found in [A.R.S. § 41-1279.07](#)

For the CFO Designation Form, please [click here](#).

For more information about the AELR, please [click here](#).

### **Bonding – Continuing Disclosure**

The Securities and Exchange Commission (SEC) requires underwriters and local governments issuing bonds to enter into a Continuing Disclosure Agreement (CDA). The CDA requires the local government to submit certain financial information to the Municipal Securities Rulemaking Board (MSRB) on an annual basis. This information is made available to the public through the MSRB's Electronic Municipal Market Access (EMMA®) platform.

To ensure timely compliance with SEC requirements, please reference your CDA and consult with your issuer about the specific disclosures and timelines for various submittals required.

For more information about CDAs, please [click here](#).

For more information about EMMA, please [click here](#).

### Budget Timeline

	Deadline	Notification Requirements	Posting Requirements	A.R.S. Reference
<b>Preliminary Expenditure Limit</b>	February 1	EEC will notify counties of their preliminary expenditure limit for the upcoming fiscal year	None	<a href="#">41-563</a>
<b>Assessment Roll</b>	February 10	County Assessor must send copies to the BOS and PTOC	None.	<a href="#">42-17052</a>
<b>Final Expenditure Limit</b>	April 1	EEC will notify counties of their final expenditure limit for the upcoming fiscal year	None.	<a href="#">41-563</a>
<b>Tentative Budget</b>	3 <sup>rd</sup> Monday in July	The tentative budget together with a notice of a budget hearing must be published in a newspaper once a week for at least two consecutive weeks after the tentative budget is adopted.	Hard copy must be available at county libraries and admin offices. A copy must be post on the county website <b>7 days</b> after adoption, and retained for at least 60 months.	<a href="#">42-17101</a>
<b>Truth-in-Taxation Hearing</b>	On or before the Final Budget – may be held in conjunction with the budget hearing	Notice must be published twice in a newspaper with the first publication between 14 and 20 days before the hearing and the second notice between seven and 10 days before the hearing. The county must also issue a press release with the TNT notice.		<a href="#">42-17107</a>
<b>Budget Hearing</b>	On or before the 14 <sup>th</sup> day prior to levying taxes	See above.	None.	<a href="#">42-17104</a>
<b>Final Budget</b>	Prior to setting the levy	See above.	A copy must be post on the county website no later than <b>7 days</b> after adoption, and retained on the website for at least 60 months.	<a href="#">42-17105</a>
<b>Property Tax Rates Adopted</b>	3 <sup>rd</sup> Monday in August	Within three days after adoption, the chief county fiscal officer must notify PTOC of the amount of primary property tax levied.	None.	<a href="#">42-17151</a>

### Audit Timeline

	<b>Deadline</b>	<b>Notification Requirements</b>	<b>Posting Requirements</b>	<b>A.R.S. Reference</b>
<b>Audit Process Begins</b>	Spring	None	None	<a href="#">41-1279.21</a>
<b>CFO Designation</b>	July 31	Counties must provide the Auditor General by July 31 of each year the name of the chief fiscal officer designated to submit the ELR	None.	<a href="#">41-1279.07</a>
<b>Fuel and Gas Tax Reporting</b>	December 31	Counties must publish an annual financial report for the prior fiscal year containing budget and actual expenditures of funds received from motor vehicle fuel and use fuel taxes. – While the bill does not specifically require counties post this report online, CSA encourages counties to do so.		<a href="#">28-6533</a>
<b>Audit and ELR Due Date</b>	March 31	Audit and ELR must be submitted to the Auditor General by March 31 of each year	The audit must be posted in a prominent location on the county website within 7 days of submittal and must remain there for 60 months.	<a href="#">41-1279.07</a> & <a href="#">11-661</a>
<b>Notice of Pending Financial Statement Filing</b>	Anytime a county does not submit their audit information by March 31	A copy of the Notice of Pending Financial Statement Filing must be sent to the Auditor General, the Speaker of the House, and the President of the Senate.	A county must post the Notice of Pending Financial Statement Filing on their website in place of the audit until the audit is complete.	<a href="#">11-661</a>
<b>Notice of Pending Financial Statement Filing – Budget</b>	Adoption of subsequent year budget	See above	If a county has not submitted their audit to the Auditor General by the time they adopt their final budget, the county must include a copy of the Notice of Pending Financial Statement Filing with their budget.	<a href="#">11-661</a>