County Budget & Audit Guide

County Supervisors Association | Updated for 2020

County Supervisors ASSOCIATION of arizona

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SUMMARY OF LEGISLATIVE 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. Given the abbreviated nature of the 2020 regular session, there are limited changes listed below. CSA will update this document with any relevant changes in any 2020 special sessions that may occur.

For the 2020 regular session, the changes include:

Property Tax

SB 1113: mortgaged property; tax statements; information *(Leach)* Requires tax statements sent to mortgagors to separately list, for both current and previous tax years, (a) the amount of applicable primary and secondary taxes due to each taxing jurisdiction, and (b) the amount of additional state aid to school districts. Requires these tax statements to be mailed before November 1. Laws 2020, Chapter 11

County Finance

SB 1099 tax deed land sales; proceeds (*Mesnard*) Requires county treasurers to pay any portion of the proceeds from a tax deed sale of real property in excess of the taxes, interest, penalties, fees, and costs, to the former property owner. Laws 2020, Chapter 70

SB 1331: self-insured employers; deviation continuation *(Livingston)* Extends the deviation rate of 10% for self-insured employer taxes and assessments to 2022. Laws 2020, Chapter 42

Pensions

SB 1354 public retirement systems; prefunding plan (*Livingston*) Provides the State Treasurer and the Public Safety Personnel Retirement System (PSPRS) the authority to establish "Pension Prefunding Plans" (also known as Section 115 Trusts). Gives the State Treasurer and PSPRS Board of Trustees the authority to administer and invest funds in the prefunding plan. Allows the governing body of an employer to authorize and request that the state treasurer invest prefunding plan and/or enter into a contract with the PSPRS Board of Trustees to participate in the PSPRS prefunding plan. Laws 2020, Chapter 79

Flexibility Language

The FY 2021 state budget signed by the governor on March 28, 2020 continued the authorizations for limited flexibility language. This omni-flexibility language is limited to $1.25 million for counties with a population under 250,000 persons. It also continues the requirement to report the use of flexibility language to JLBC by October 1, 2020. More information in Flexibility Language section.

Other Issues

SB 1021 department of revenue; electronic signatures (*Ugenti-Rita*) Stipulates the Arizona Department of Revenue must accept electronic signatures and prescribes electronic signature requirements. Laws 2020, Chapter 60

To access other county-relevant bill summaries, including county touch-points in the enacted FY 2021 state budget, please see CSA's 2020 Legislative Session Summary.

BUDGET AND TAXATION

Assessment Roll: By February 10th, 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 10th. 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.

The specific requirements for the levy limit are found in A.R.S. § 42-17051.

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.

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 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.

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.

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. A motion to levy increased property taxes is required and must 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: 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

Calculation

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

Example:
Previous year Tax Rate: $1.0000 per $100NAV
Previous year NAV: $100,000,000
Previous year levy (Lpy): $1,000,000
Current year NAV (NAVcy): $110,000,000
New Construction (NC): $5,000,000
Current Year NAV subject to taxation in the previous year: $105,000,000

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

$$\boldsymbol{TNT\ Rate = \$0.9524\ per\ \$100\ NAV}$$

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 boundary has 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.

To access the OAG forms and instructions for the AELR, please click here.

For the CFO Designation Form, please click here.

PSPRS PENSION FUNDING POLICY

Requires employers to annually adopt a pension funding policy for the system with PSPRS employees hired on or before July 1, 2017 (Tiers I & II). Stipulates that the policy include funding objectives that address:

- Maintain the stability of employer contributions
- How and when the plan will be fully funded
- Define the target funded ratio and a timeline to reach that target

Additionally, the policy must be posted on the county's website. A.R.S. § 38-863.01.

For a sample pension funding policy, please click here.

PSPRS ACTUARIAL MODELER

PSPRS now provides an actuarial modeling tool to allow employers with PSPRS plans to estimate impacts of changes to actuarial assumptions, additional deposits and variable investment returns on employer contribution requirements and funding status. To access the most recent version of the PSPRS Actuarial Modeler, please e-mail vanessaf@countysupervisors.org .

BONDING – CONTINUING DISCLOSURE

The Securities and Exhange 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 requirments, 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.

COUNTY FLEXIBILITY LANGUAGE

In addition to statutory provisions, the State Budget signed by the governor on March 28, 2020 included allowances for county financial flexibility. Please see below for a breakdown of the flexibility language contained in various parts of the state budget and statute.

Comprehensive Flexibility Language

As session law, allows counties with fewer than 250,000 persons (Apache, Cochise, Coconino, Gila, Graham, Greenlee, La Paz, Mohave, Navajo, Santa Cruz, Yavapai, and Yuma) to use any source of county revenue, including countywide special districts controlled by the board of supervisors, to meet a county fiscal obligation for FY 2021 up to $1.25 million. Counties are required to report to the Joint Legislative Budget Committee (JLBC) by October 1, 2020, whether the county used the flexibility language, with the specific amount and revenue source.

SB 1684 revenue; budget reconciliation; 2020-2021; Sec. 7

> *A. Notwithstanding any other law, for fiscal year 2020-2021, a county with a population of less than two hundred fifty thousand persons according to the 2010 United States decennial census may meet any county fiscal obligation from any source of county revenue designated by the county, including monies of any countywide special taxing jurisdiction of which the board of supervisors serves as the board of directors. Under the authority provided in this subsection, a county may not use more than $1,250,000 for purposes other than the purposes of the revenue source.*
>
> *B. On or before October 1, 2020, all counties with a population of less than two hundred fifty thousand persons according to the 2010 United States decennial census shall report to the director of the joint legislative budget committee whether the county used a revenue source for purposes other than the purposes of the revenue source to meet a county fiscal obligation pursuant to subsection A of this section and, if so, the specific source and amount of revenues that the county intends to use in fiscal year 2020-2021.*

Statutory Flexibility Language for State Cost Shifts

Restoration to Competency (RTC) Payments: A.R.S. § 13-4512 includes "flexibility language," allowing counties to use any source of county revenue to pay for 100 percent of the costs associated with competency restoration treatment at the Arizona State Hospital. In temporary law (Laws 2020, Ch. 54, Sec. 6) , excludes these payments from the county expenditure limitations.

A.R.S. § 13-4512

> *K. Notwithstanding any other law, a county may meet any statutory funding requirements of this section from any source of county revenue designated by the county, including funds of any countywide special taxing district of which the board of supervisors serves as the board of directors.*

Arizona Department of Juvenile Corrections (ADJC) Cost Shift: The FY 2020-2021 budget continues the authorization of ADJC to assess a "committed youth confinement cost sharing fee" to each county with over 500,000 persons. A.R.S. § 41-2832 allows counties to use any source of county revenue to pay the fee and excludes county contributions from the expenditure limit.

A.R.S. § 41-2832

> *C. County contributions made pursuant to this section are excluded from the county expenditure limitations.*
>
> *D. Notwithstanding any other law, a county may meet the cost sharing requirements of this section from any source of county revenue designated by the county, including monies of any countywide special taxing jurisdiction in which the board of supervisors serves as the board of directors.*

Arizona Department of Revenue (ADOR) Cost Shift: The FY 2020-2021 budget continues the authorization of ADOR to assess fees to each city, town, county, council of governments, and regional transportation authority for the collection of sales tax, and the provision to allow cities/counties to use any source of revenue to pay this fee.

A.R.S. § 42-5041

> *G. Counties, cities and towns may meet their cost sharing obligation from any source of county, city or town revenue designated by the appropriate county, city or town. The county sources may include monies of any countywide special taxing jurisdiction in which the board of supervisors serves as the board of directors.*
>
> *H. County, city and town contributions made pursuant to this section are excluded from the applicable expenditure limitations.*

BUDGET TIMELINE

	Deadline	Notification Requirements	Posting Requirements	A.R.S. Reference
Preliminary Expenditure Limit	February 1	EEC will notify counties of their preliminary expenditure limit for the upcoming fiscal year.	None.	41-563
Assessment Roll	February 10	County Assessor must send copies to the BOS and PTOC.	None.	42-17052
Final Expenditure Limit	April 1	EEC will notify counties of their final expenditure limit for the upcoming fiscal year.	None.	41-563
Tentative Budget	3rd 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 7 days after adoption, and retained for at least 60 months.	42-17101
Truth-in-Taxation Hearing	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.		42-17107
Budget Hearing	On or before the 14th day prior to levying taxes	See above.	None.	42-17104
Final Budget	Prior to setting the levy	See above.	A copy must be post on the county website no later than 7 days after adoption, and retained on the website for at least 60 months.	42-17105
Property Tax Rates Adopted	3rd 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.	42-17151

AUDIT TIMELINE

	Deadline	Notification Requirements	Posting Requirements	A.R.S. Reference
Audit Process Begins	Spring	None.	None.	41-1279.21
CFO Designation	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.	41-1279.07
Fuel and Gas Tax Reporting	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 language does not specifically require counties post this report online, CSA encourages counties to do so.		28-6533
Audit and ELR Due Date	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.	41-1279.07 & 11-661
Notice of Pending Financial Statement Filing	Anytime a county does not submit their audit information by March 31	A copy of the Notice of Pending Financial Statement Filling 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.	11-661
Notice of Pending Financial Statement Filing – Budget	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.	11-661