COUNTY SUPERVISORS ASSOCIATION

County Budgets & Finance

New Supervisors Orientation

A **county budget** identifies the services and commitments to be provided, and how they are to be financed

To understand county budgets, it is important to know:

- How the budget is a tool for governing
- The budget process
- The primary budget participants
- The critical parts of the budget document
- The major revenue categories
- Significant cost drivers

Policy Making Tool

- Demonstrates choices about what a government will, or won't, do
- Reflects public consensus about services to be provided
- Reveals trade-offs used in making public policy

Planning & Management Tool

- Shows plan of financial activity over period of time – sources and uses
- Provides the mechanism of allocating resources for public good
- Helps policy makers and managers set goals and improve performance

Communication Tool

- Establishes accountability of how tax dollars are spent
- Concise way to show priorities or the need for change
- Help constituents understand the reasons for a decision

Components of Process

- Department/Elected requests
- Revenue projections
- Expenditure estimates
- Statutory requirements & deadlines
  - Adopt tentative and final budget
  - Set county property tax rate(s) & levy(ies)
    - Including county-controlled special districts, if applicable
  - Follow Truth-in-Taxation (TNT) processes, if applicable
- Hold budget hearings

Budget Participants

- Board of Supervisors
- County Manager/Administrator
- Finance/Budget Director
- Finance/Budget Office
- Department Officials
- County Elected Officials

Outside Influencers

- State legislature
- State agencies
- Federal government

Statute requires budgets to be adopted by August.
Most counties finalize and adopt prior to the fiscal year beginning.

Fiscal Year Begins
July 1

Tentative Budget Adoption
By 3rd Monday in July

1st Tentative Budget & Budget Hearing Notice
1st week after tentative budget is adopted
May be combined with TNT notice

1st TNT Notice
14-20 days prior to TNT hearing

2nd Tentative Budget & Budget Hearing Notice
2nd week after tentative budget is adopted
May be combined with TNT notice

2nd TNT Notice
7-10 days prior to TNT hearing

Final Budget Adoption
Following Budget Hearing
Prior to Rate Adoption

Budget Hearing
At least 14 days prior to Rate Adoption

TNT Hearing
Prior to Final Budget Adoption
May be in conjunction with Budget Hearing

Property Tax Rate Adoption
3rd Monday in August

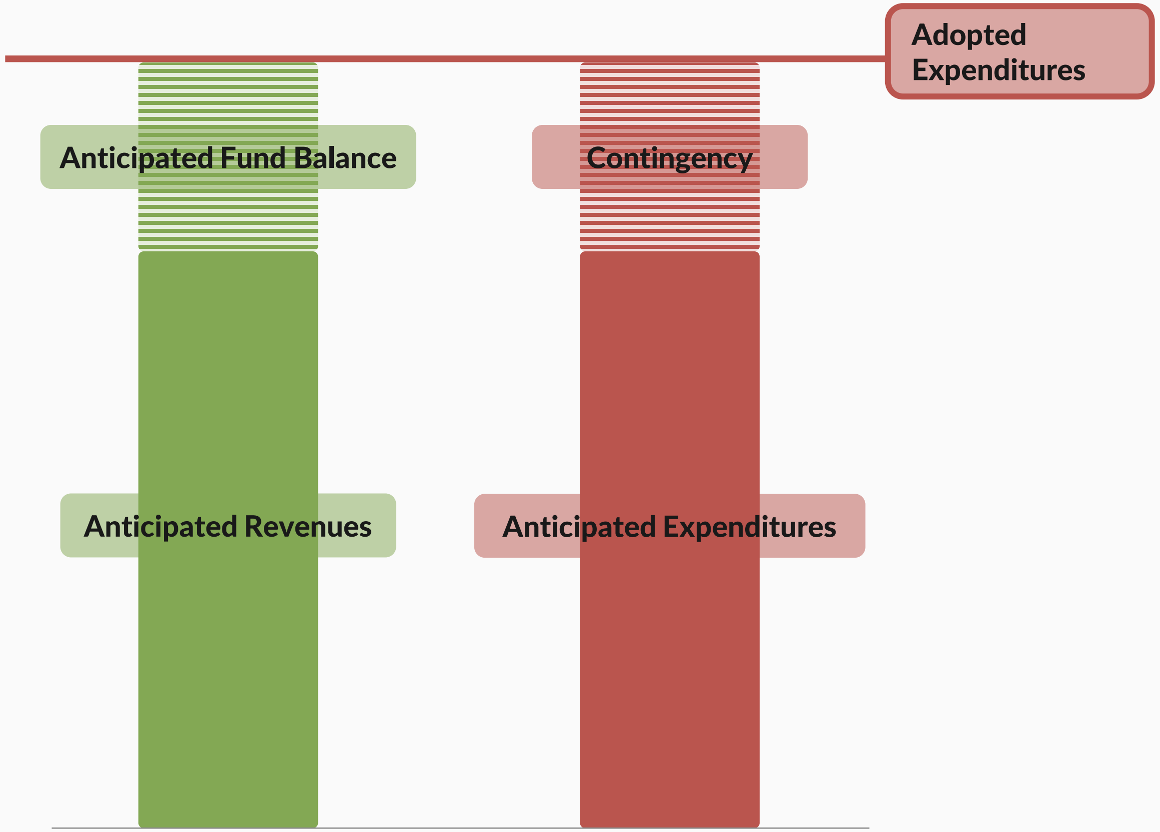
TNT = Truth-in-Taxation

Unlike the state or federal government, counties cannot amend budget to increase spending above adopted budget.

- Final adopted budget spending *cannot exceed* tentative budget
- County *cannot exceed* final adopted budget spending, regardless of resources available
- County *cannot* spend money for a purpose not included in the budget
- The Board *may* transfer monies between budget items through majority vote
    - Funds must be available, transfer must be in *the public interest* and based on *demonstrated need*

To allow for unanticipated spending need, counties often budget all available resources.

Example for illustrative purposes only



- Counties are required, at a minimum, to publish budgets using forms prescribed by the AZ Auditor General*
    - Includes estimates of previous FY expenditures, revenues and fund balances, budget for upcoming FY
    - Does ***not*** prevent counties from doing longer-term planning
- Statute includes various requirements for tentative and final budgets to be posted in newspaper, available on county's website.

Summary Schedule of Estimated Revenues and Expenditures/Expenses
Fiscal Year 2018

Fiscal Year		Sch	FUNDS General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Permanent Fund	Enterprise Funds Available	Total All Funds
2017	Adopted/Adjusted Budgeted Expenditures/Expenses*	E	81,056,797	57,070,209		19,673,973		5,278,843	163,079,822
2017	Actual Expenditures/Expenses**	E	54,507,939	32,660,595		2,514,314		4,285,975	93,968,823
2018	Fund Balance/Net Position at July 1***		27,458,625	19,435,546		13,718,293		(957,583)	59,654,881
2018	Primary Property Tax Levy	B	24,420,089						24,420,089
2018	Secondary Property Tax Levy	B		4,314,291					4,314,291
2018	Estimated Revenues Other than Property Taxes	C	27,837,705	33,833,229		5,756,850		5,528,415	72,956,199
2018	Other Financing Sources	D							
2018	Other Financing (Uses)	D							
2018	Interfund Transfers In	D	369,258	1,825,618		244,518		606,846	3,046,240
2018	Interfund Transfers (Out)	D	467,723	1,537,438		189,715		851,364	3,046,240
2018	Reduction for Amounts Not Available:								
LESS:	Amounts for Future Debt Retirement								
2018	Total Financial Resources Available		79,617,954	57,871,246		19,529,946		4,326,314	161,345,460
2018	Budgeted Expenditures/Expenses	E	79,617,954	57,871,246		19,529,946		4,326,314	161,345,460

EXPENDITURE LIMITATION COMPARISON	2017	2018
1. Budgeted expenditures/expenses	$ 163,079,822	$ 161,345,460
2. Add/subtract: estimated net reconciling items	(5,000,000)	(5,243,900)
3. Budgeted expenditures/expenses adjusted for reconciling items	158,079,822	156,101,560
4. Less: estimated exclusions	92,331,068	89,994,284
5. Amount subject to the expenditure limitation	$ 65,748,754	$ 66,107,276
6. EEC expenditure limitation	$ 65,748,754	$ 66,107,276

* Includes Expenditure/Expense Adjustments Approved in the current year from Schedule E.
** Includes actual amounts as of the date the proposed budget was prepared, adjusted for estimated activity for the remainder of the fiscal year.
*** Amounts on this line represent Fund Balance/Net Position amounts except for amounts not in spendable form (e.g., prepaids and inventories) or legally or contractually required to be maintained intact (e.g., principal of a permanent fund).

*A.R.S. § 42-17101(3)(b), 42-17102(B)

County General Fund Revenues

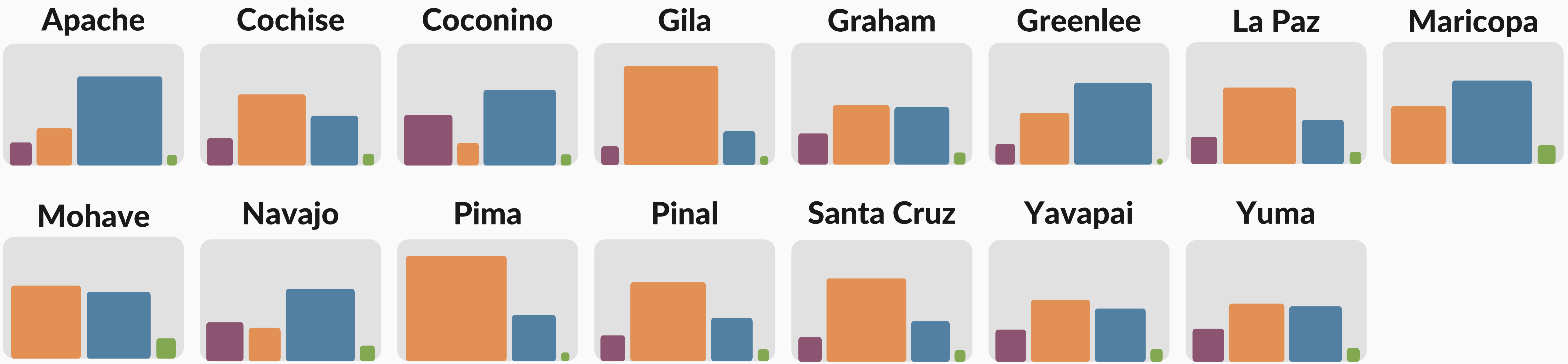
County general fund spending is funded primarily by local property and sales taxes, along with state shared revenues.

Local Tax Revenue
Half-cent sales tax

Local Tax Revenue
Primary Property Tax

State Shared Revenue
Sales Tax

State Shared Revenue
Vehicle License Tax (VLT)



Resources collected by taxing jurisdiction

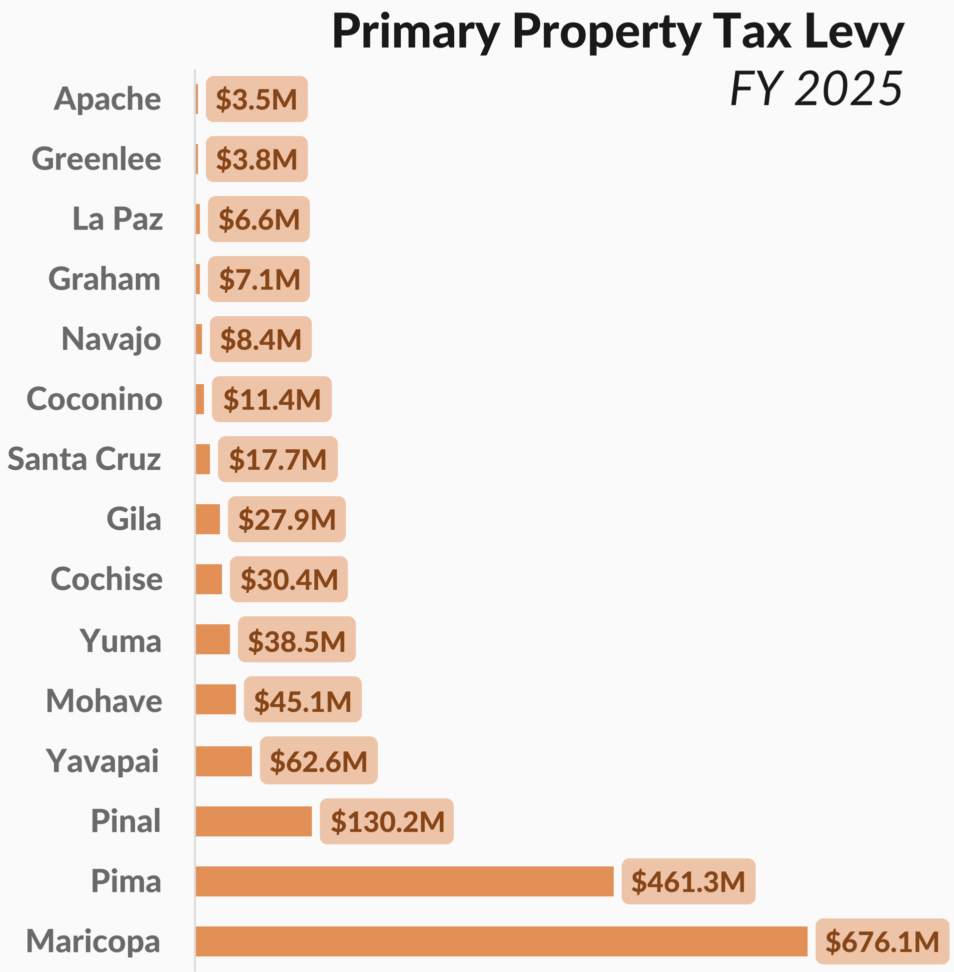
Rate that taxpayers see

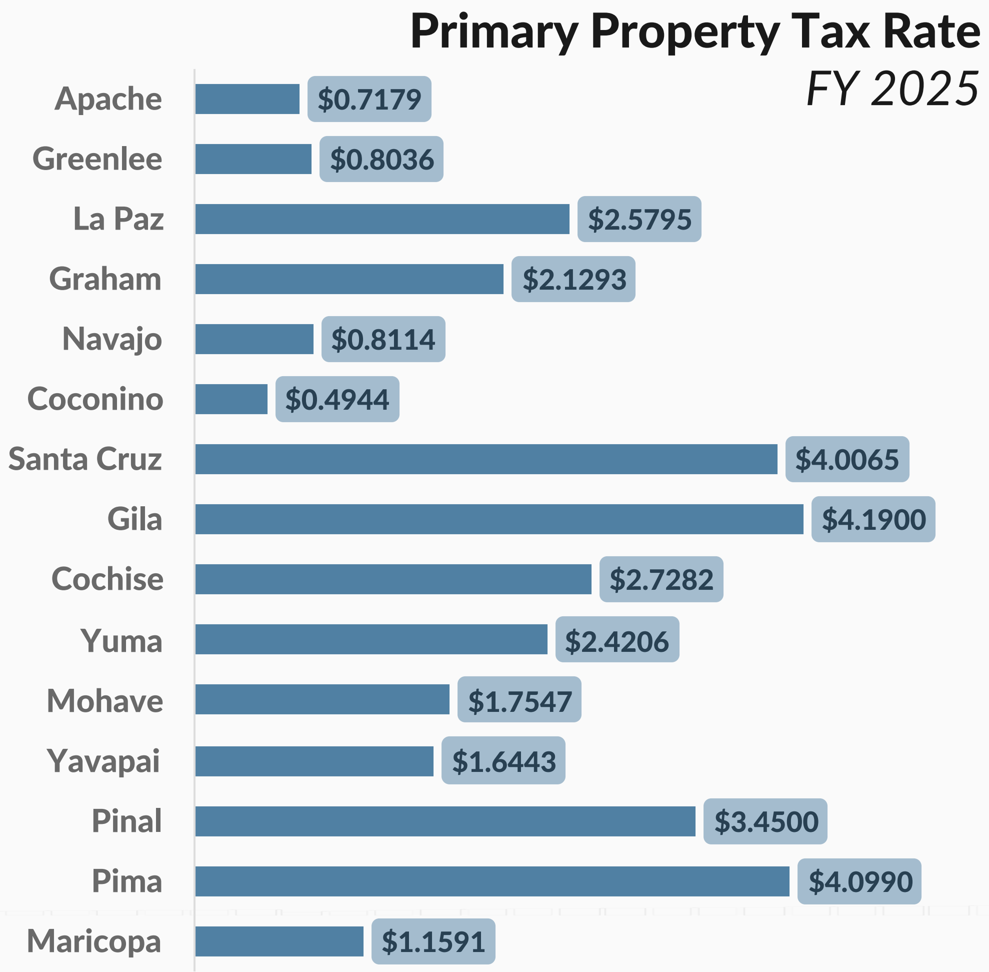
Total value of all taxable property in jurisdiction

Tax Levy = **Tax Rate** x **Property Value** ***Net Assessed Value*** ÷ **100**

Tax Levy = Tax Rate x Property Value ÷ 100

Net Assessed Value





Tax Levy = Tax Rate x Property Value ÷ 100

Net Assessed Value

Limitations on county property tax authorities

Primary Property Tax Limitation
Constitutional Levy Limit

Property Tax Transparency Requirement
Truth-in-Taxation

Property Tax Increase Threshold
15% Increase – Unanimity Requirement

County Revenues | Primary Property Tax

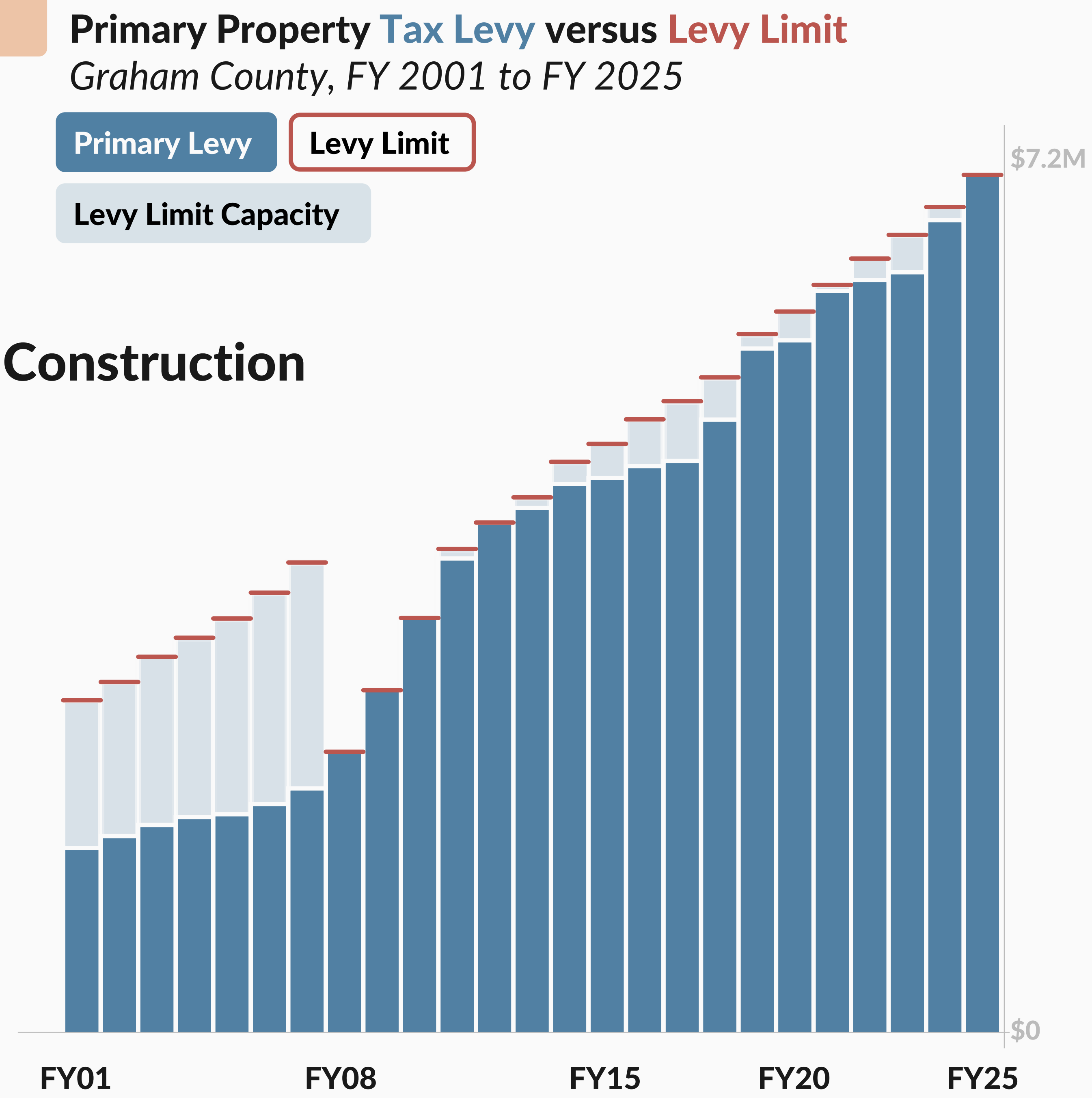
Primary Property Tax Limitation

Constitutional Levy Limit

Prior Year's Levy Limit + 2% + New Construction

New construction = property added to or removed from the tax roll

- Statute allows for voters to approve *temporary* override of levy limit
  - Between 2 and 7 years
  - Requires 2/3rd majority of BOS to send to ballot
- Added to constitution in 1980
- Limits were *rebased* by legislative referral to the voters, effective in FY 2008



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Constitutional Levy Limit

Prior Year's Levy Limit + 2% + New Construction

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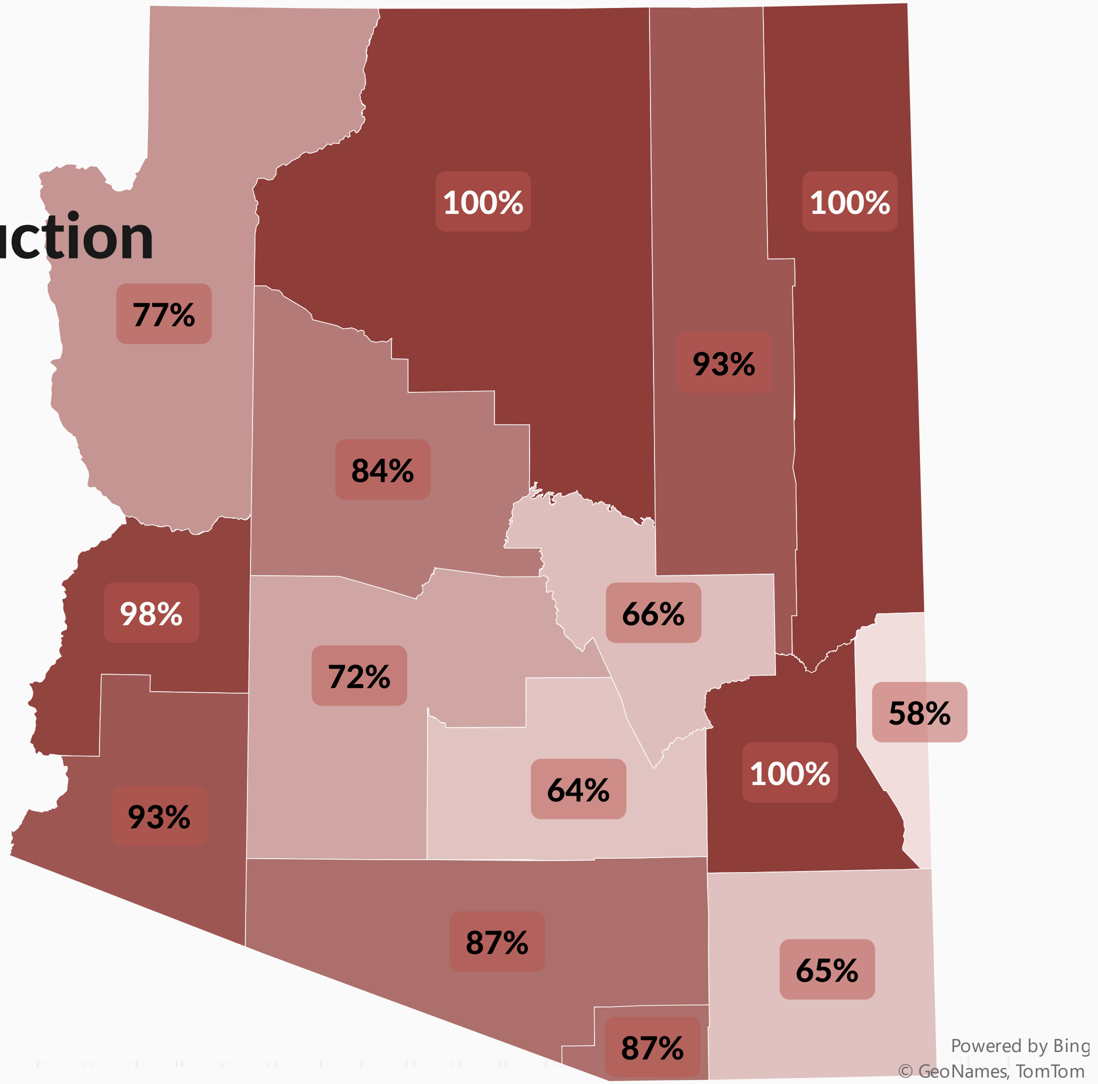
FY 2025

- 6/15 counties have levies within 10% of their levy limit
- All counties within 50% of limit

Share of Levy Limit Utilized
FY 2025



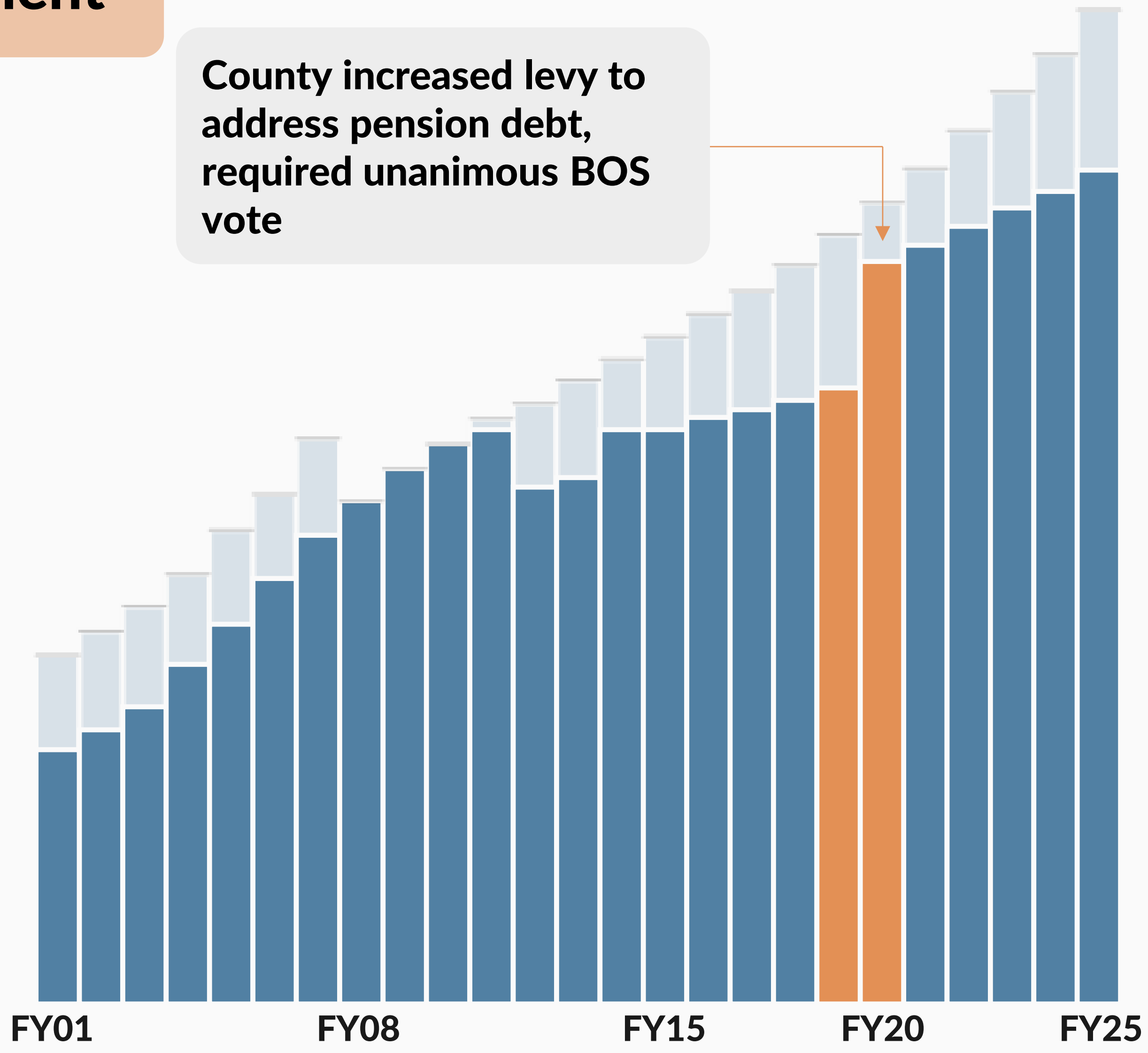
Property Tax Increase Threshold

15% Increase – Unanimity Requirement

Levy **increases of 15% or more** on existing property require a unanimous vote of the BOS

- Does not include increases from new construction
- Statutory, not constitutional, requirement

Primary Property Tax Levy
Yavapai County, FY 2001 to FY 2025



County Revenues | Primary Property Tax

Property Tax Transparency Requirement

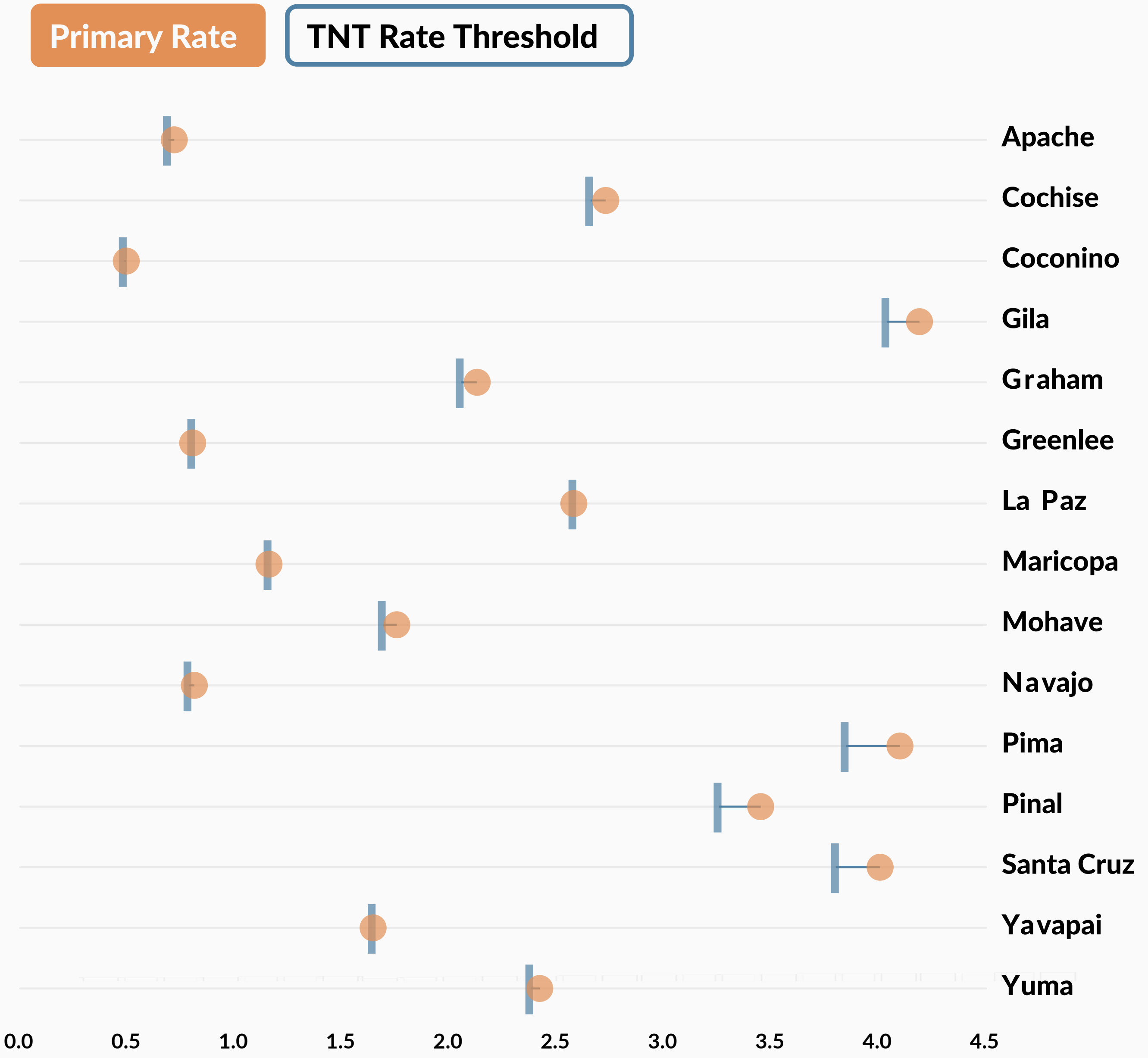
Truth-in-Taxation

County must hold hearing, post notice, if proposed property tax levy on existing property exceeds prior year's levy.

- Posting on web, in budget & in county newspaper
- Must be done for county primary, along with countywide secondary districts

Truth-in-Taxation Rate vs. Adopted Rate

FY 2025, Primary Property Tax



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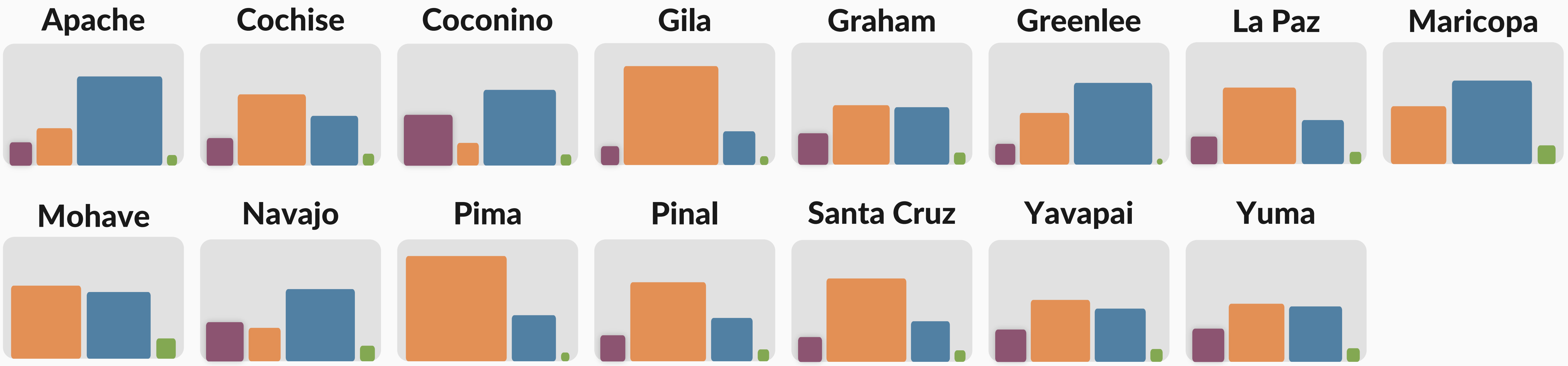
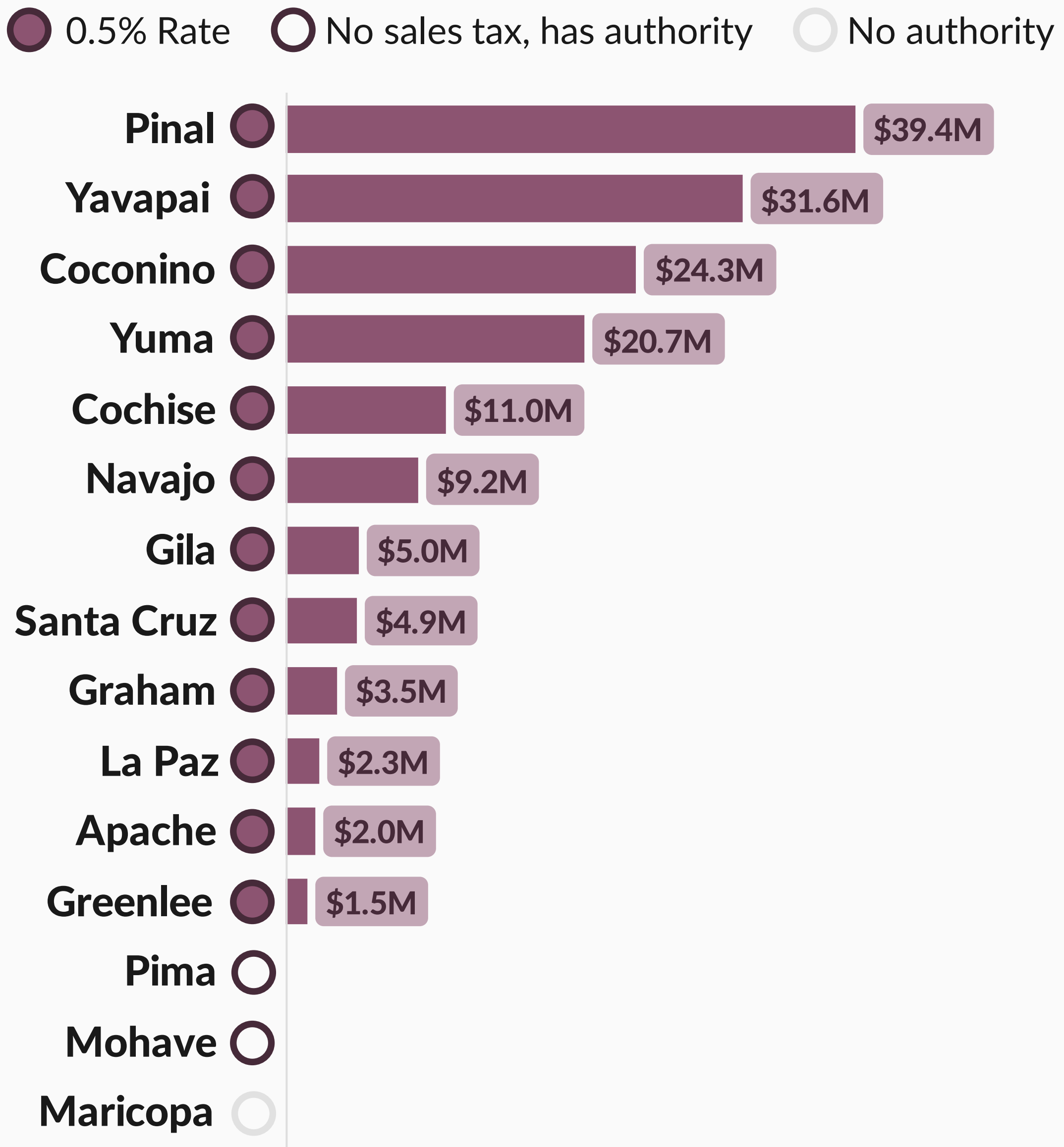


12 counties currently have a local general fund sales tax

- Requires unanimous approval of the BOS to adopt
  - Most counties adopted in late 1980s or early 1990s
- Board resolution adopting sales tax may limit what revenue can be used for
- Levied on all taxable transactions *within the county*
  - Taxable sales defined in statute

General Fund Sales Tax Revenue
FY 2024



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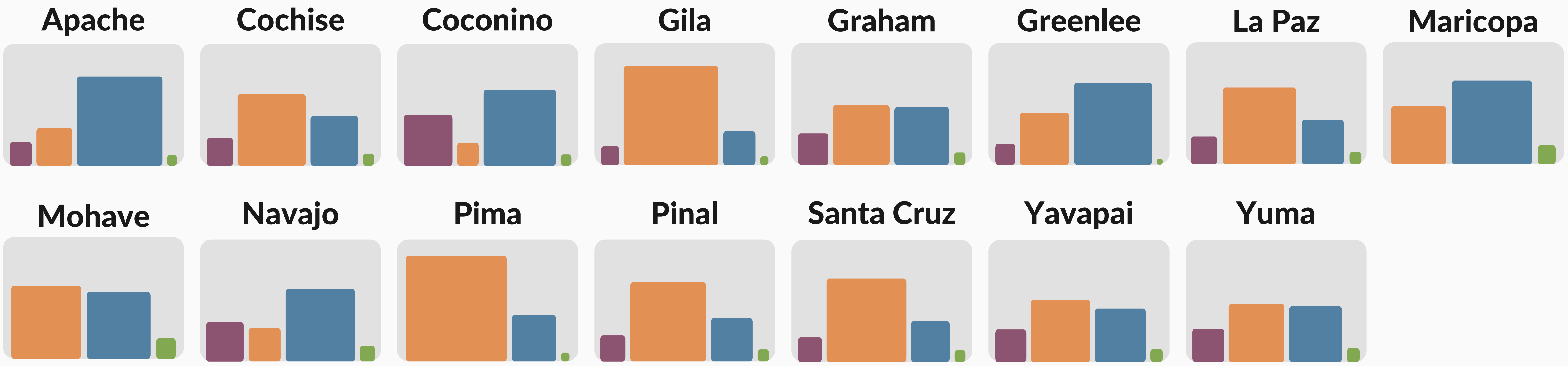
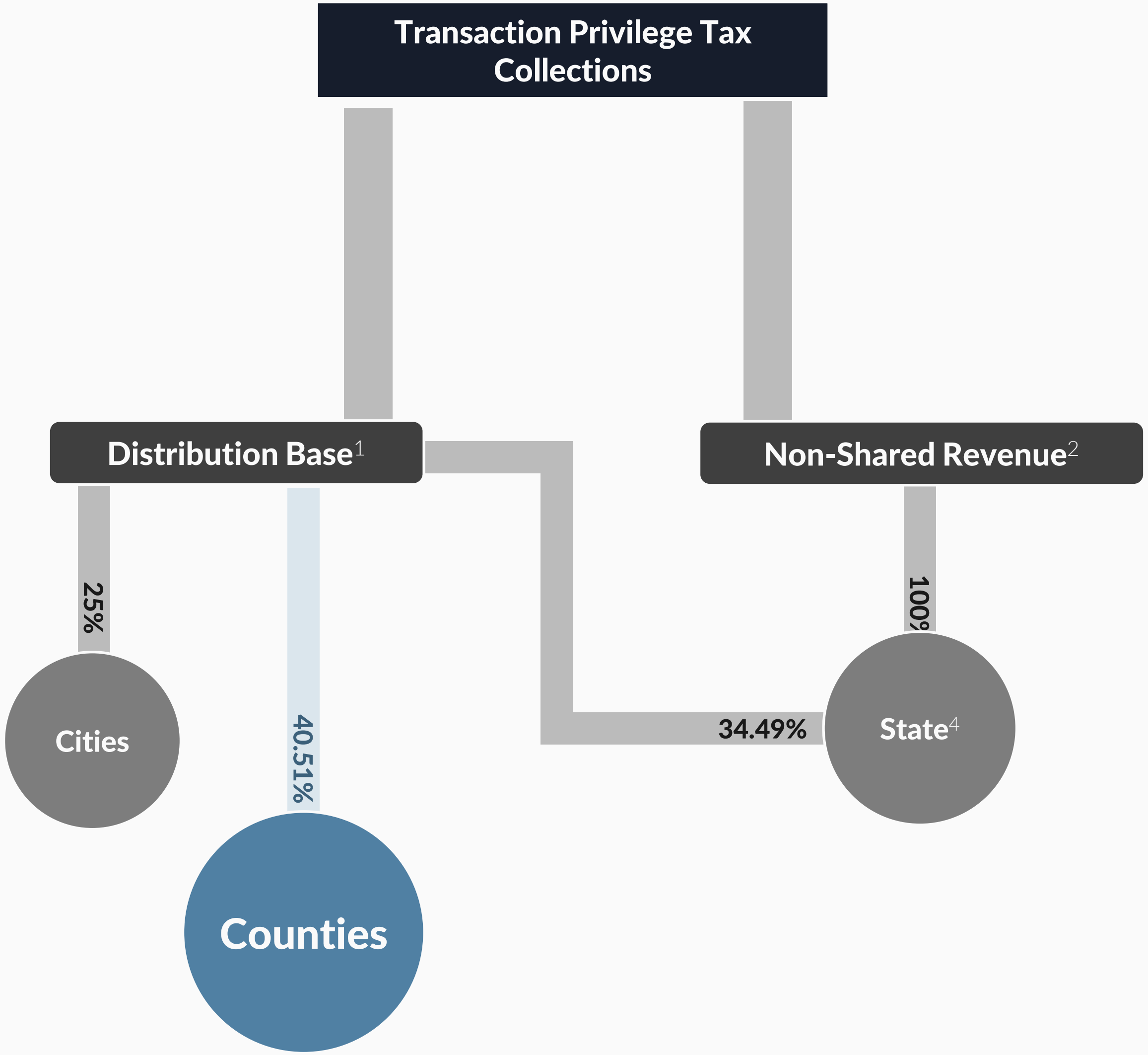


Counties received over $1.4B in state shared TPT in FY 2024

- State shares sales tax, but not income tax, with counties
- Revenue collections come from the entire state
- Taxable sales are defined in statute
- County receives distribution based on where the sale was made (point-of-sale) and either population or property value



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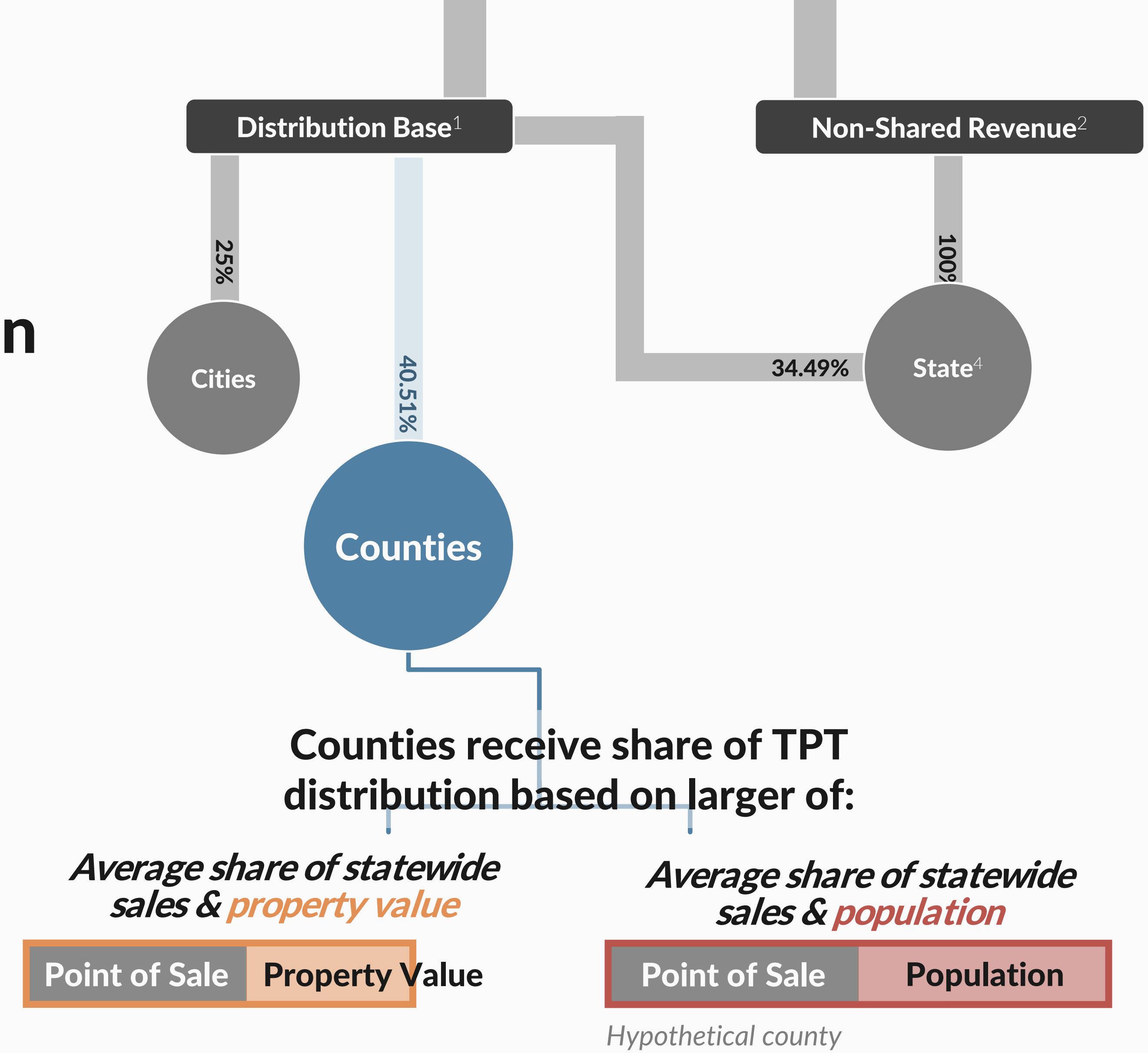

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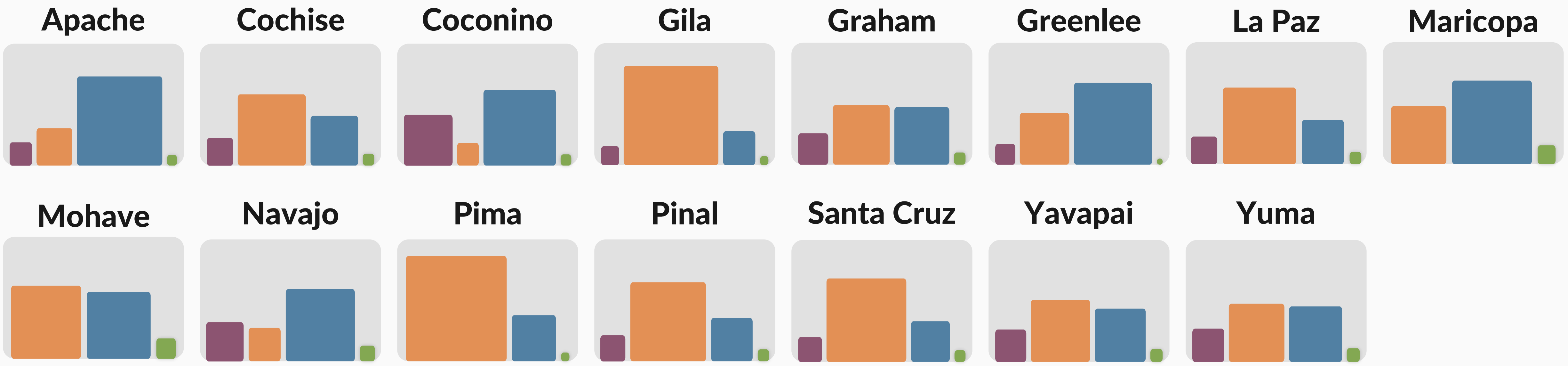
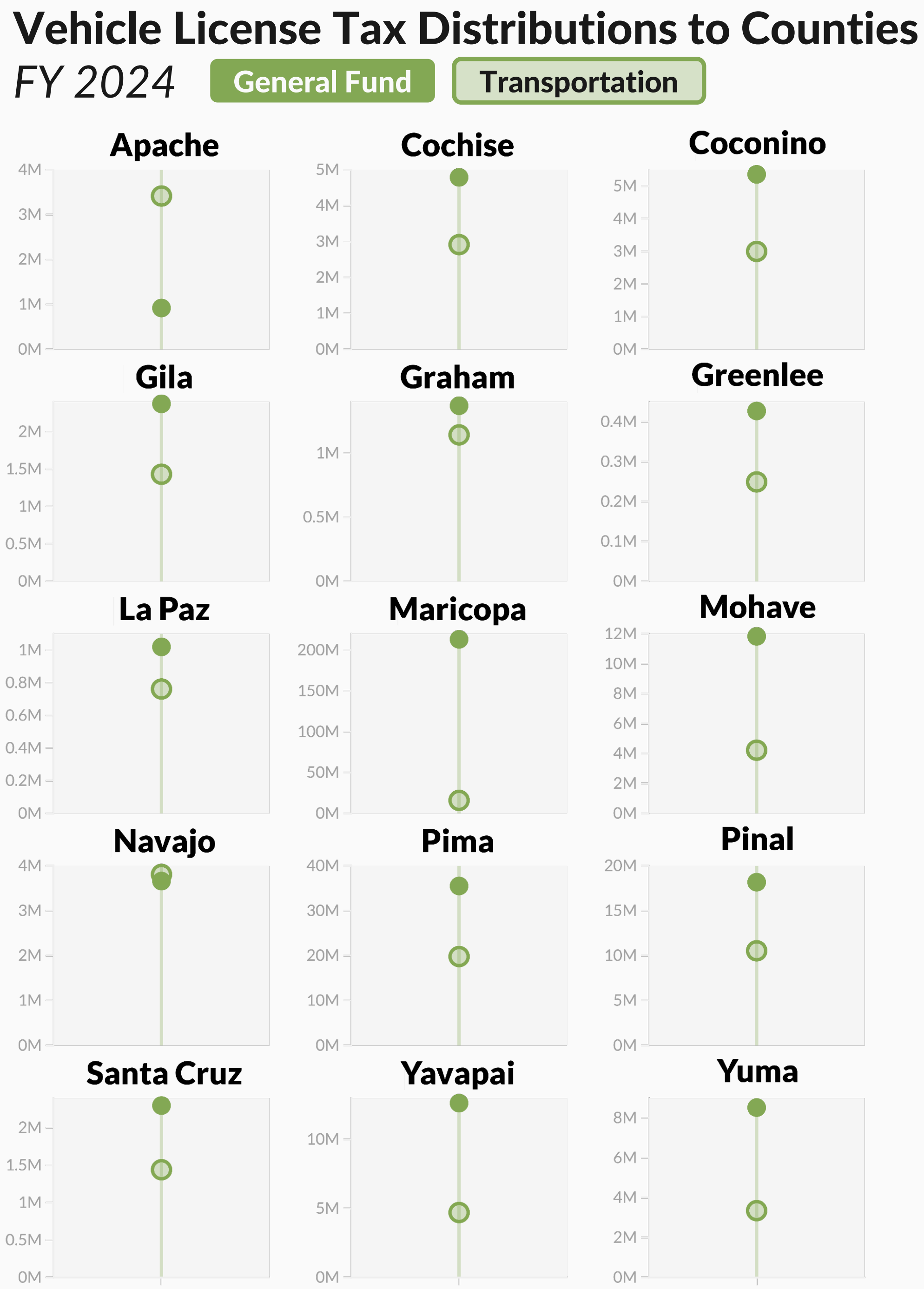


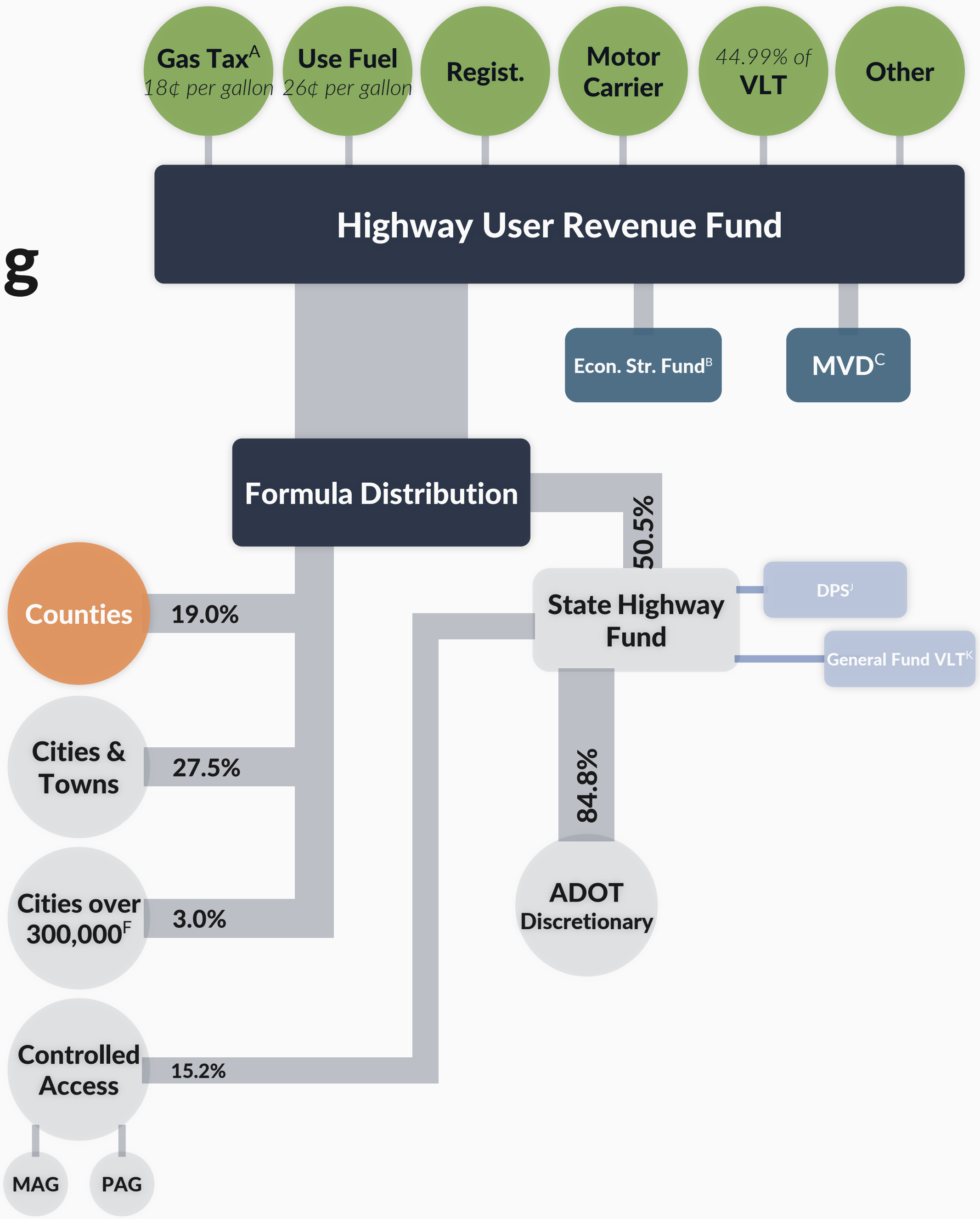
Counties receive VLT for general fund purposes, as well as transportation.

- General fund VLT is distributed based on county's *share of vehicles registered*
- Transportation VLT is distributed based on the county's *share of unincorporated population*
    - Funds must be used for transportation purposes
- Rate set in statute, ADOT collects and distributes



HURF is the primary source of funding county roadway construction & maintenance.

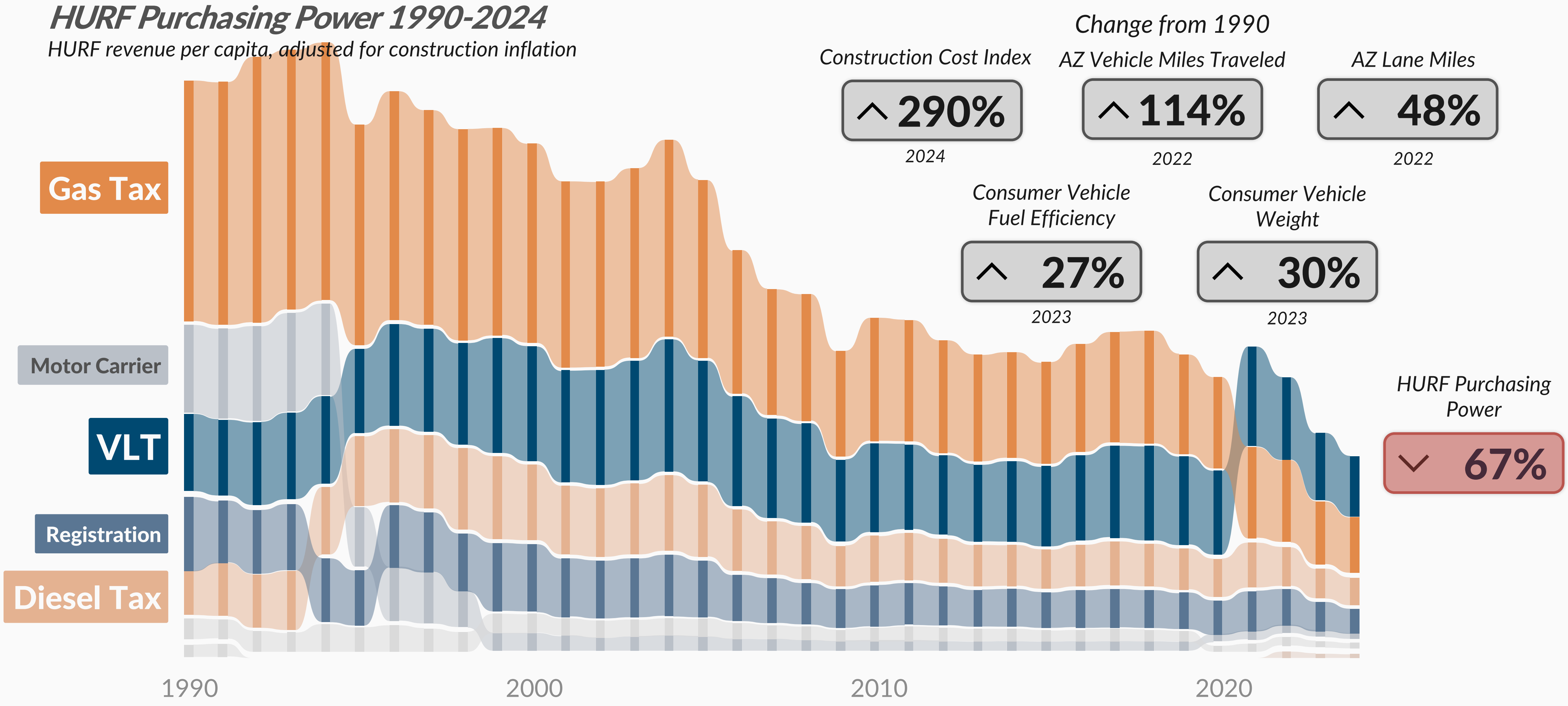
- Funded primarily from fuel taxes, vehicle license taxes
- Counties receive HURF distribution based on *share of fuel sales (72%)* and *unincorporated population (28%)*
- Counties received $340M in HURF revenues in FY 2024
  - Growth in HURF outpaced by growth in population, construction costs



HURF per capita purchasing power is just 33% of what it was in 1990, the last time Arizona's fuel tax was adjusted.

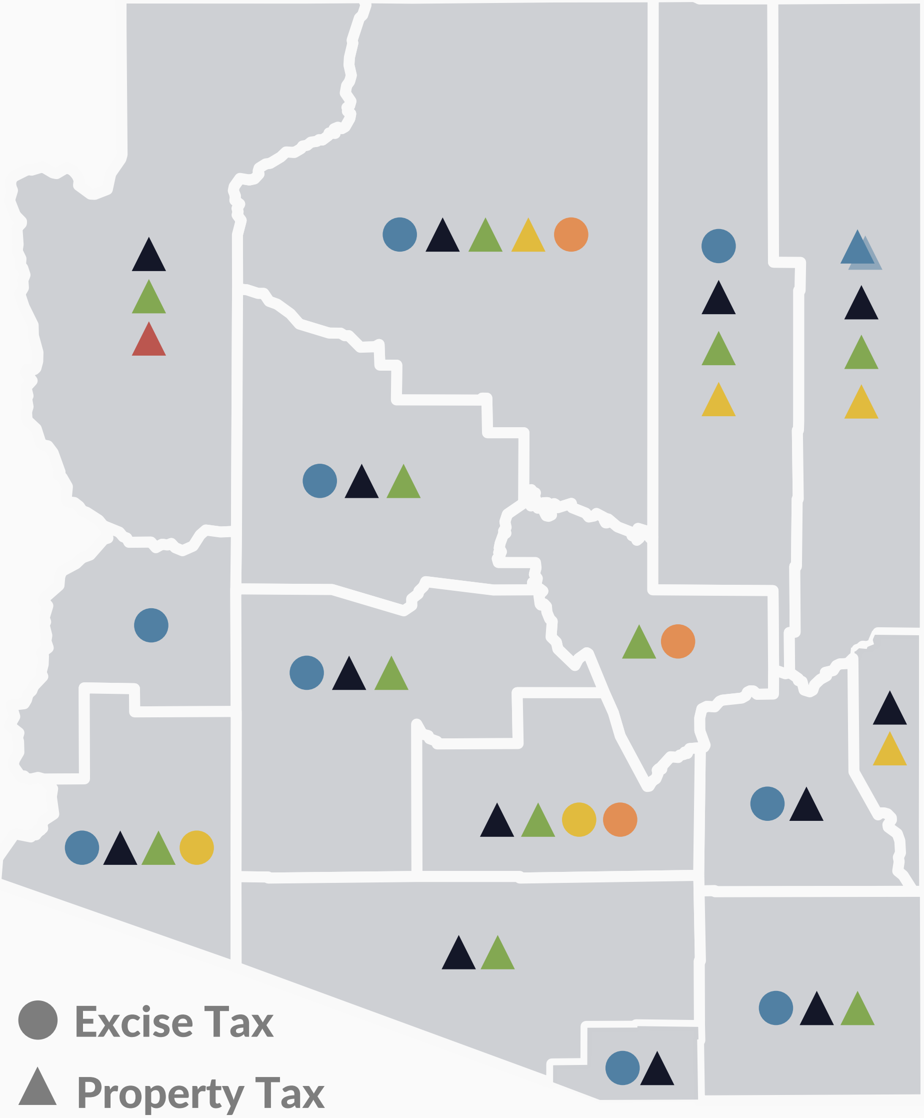
HURF Purchasing Power 1990-2024

HURF revenue per capita, adjusted for construction inflation



County-wide special tax districts or levies provide additional, often voter approved, funding for specific purposes

- Typically require a *maintenance of effort* from county GF, which is adjusted annually
- Often act as separate legal entities, with BOS as board
- Some districts require reauthorization by voters



Jail District or Excise Tax
construction and operations

Public Health
infectious disease prevention, immunization, birth certificates

Flood Control
construction and maintenance of flood control structures

Library
resource-sharing and coordination between county and municipal libraries

Excise tax for transportation (tax only)
Transportation infrastructure maintenance and operation. May be shared with municipalities. Separate from regional transportation authority excise taxes.

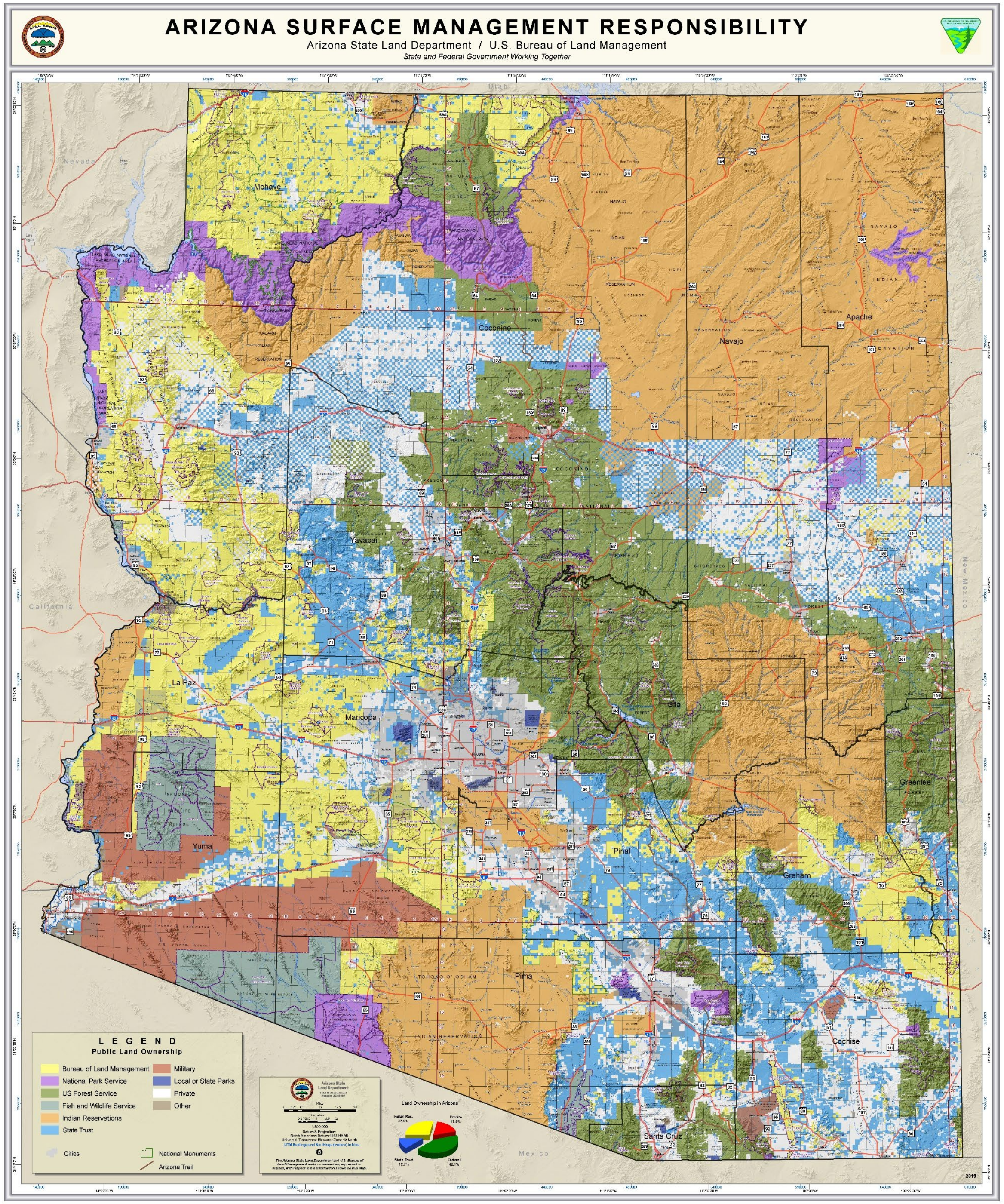
Counties receive funds from federal government for federal lands in their jurisdiction

Payment in lieu of taxes
PILT

- Used to fund general government services
- Subject to annual federal appropriations process

Secure Rural Schools
SRS

- Primarily for rural schools and county roadway maintenance
- Subject to annual federal appropriations process
  - Not reauthorized past FFY 2023



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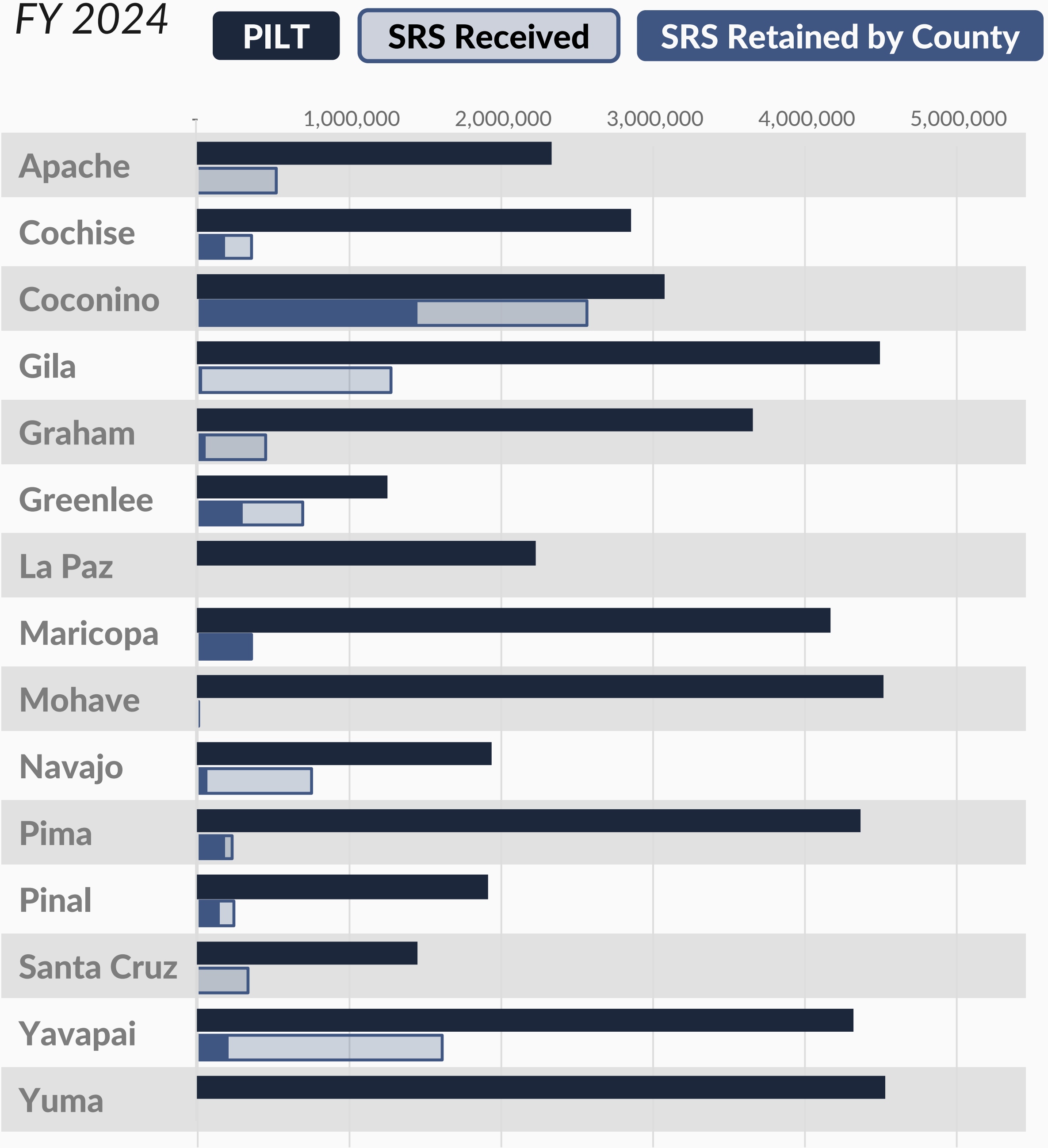
PILT & SRS Distributions to AZ Counties

FY 2024



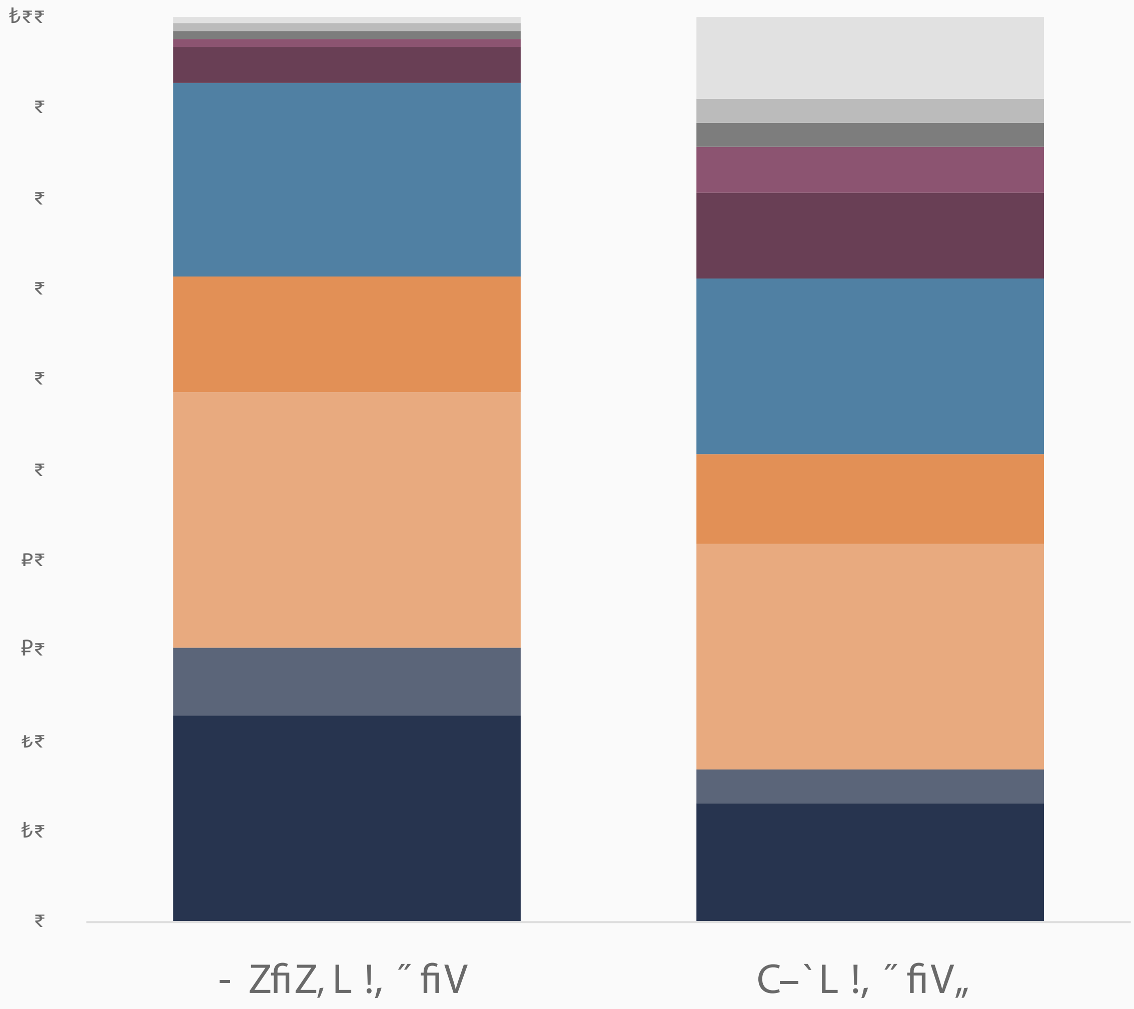
County Expenditures

County services, and spending, are largely mandated in statute

- Majority of county spending on:
  - Public safety
  - Criminal justice
  - Constitutional county offices
  - State mandated payments

County General Fund (GF) and Total Fund (TF) Share of Expenditures

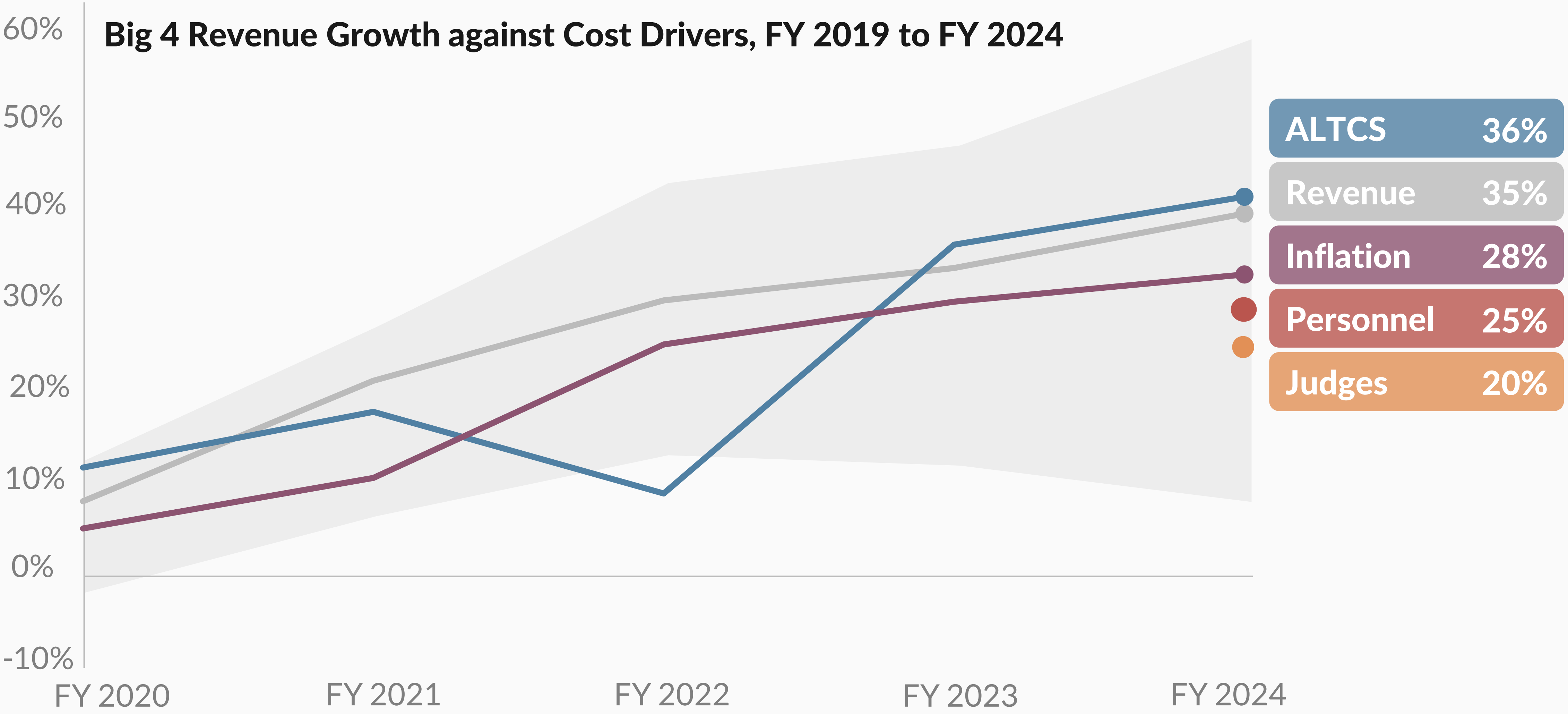
Total all counties, most recent financial audit available



General Government (Incl. Constitutional Offices & Courts) | General Government (Incl. Constitutional Offices) | Culture & Recreation | Other

Public Safety | Public Safety (Including Courts) | Health, Welfare & Sanitation | Capital Outlay | Highways & Streets | Education

Major cost drivers have kept pace with or exceeded growth in revenues.

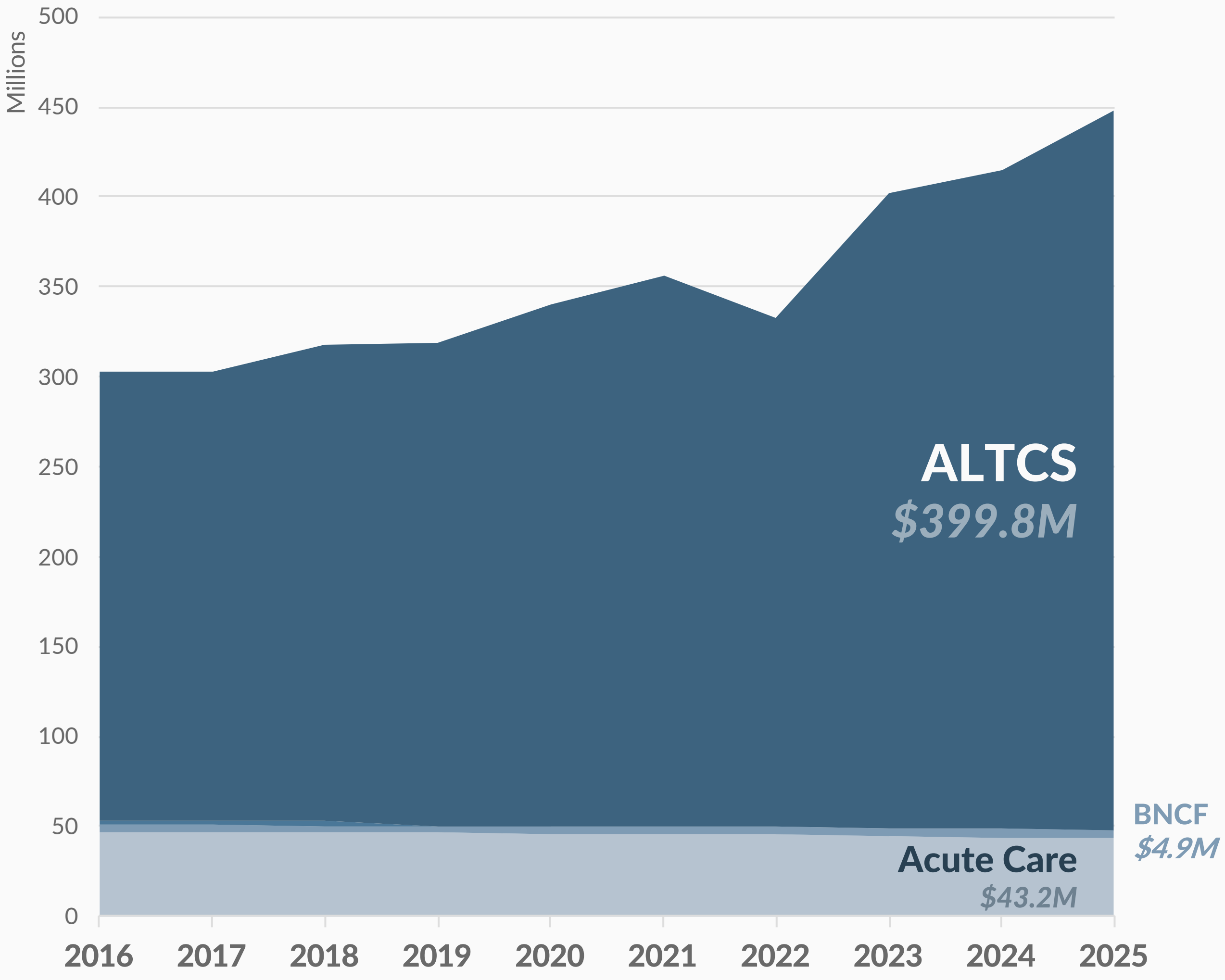


Counties are required to pay over $445M in FY 2025 to fund state long-term and acute care programs at AHCCCS

- Biggest cost is contribution to **ALTCS**, the Arizona Long Term Care System
- Contributions set annually during state's budget process
- Counties have no policy or administrative control over payments
  - Federal, state policy choices, along with population and healthcare costs drive contribution requirements

Mandated County Payments to AHCCCS

FY 2016 to FY 2025

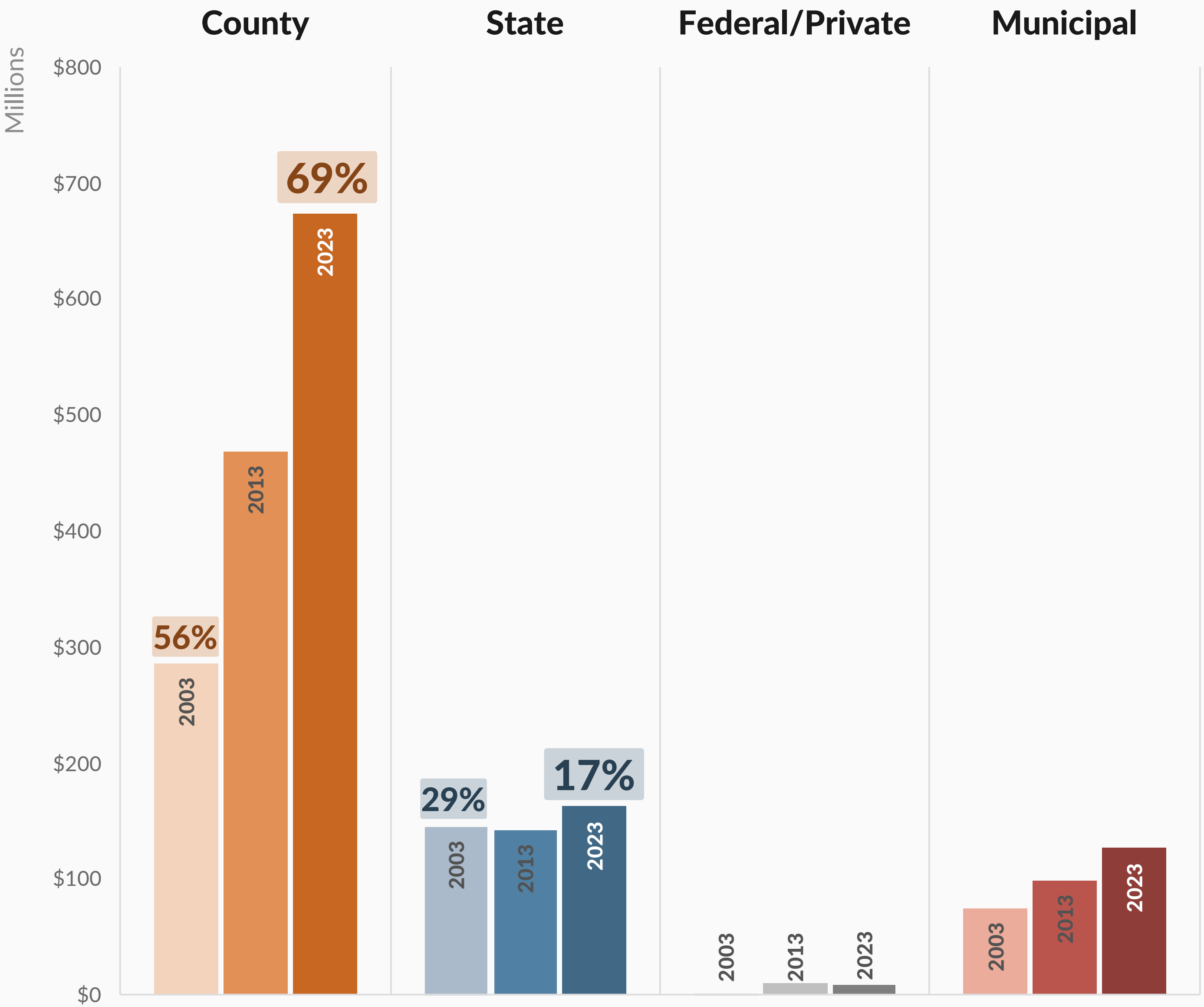


Superior & justice courts receive most of their funding from the county.

- Arizona has an integrated, statewide court system.
- No clear cost-sharing structure between the state and counties for superior and justice court funding.
- According to AOC reports, counties have born most of the increase in funding for the courts over the past two decades.
- State and court policy can drive costs outside of county control.

Arizona Court Funding

FY 2003, FY 2013, FY 2023



Source: Administrative Office of the Courts, Annual Data Report, Total Court Spending & Share of Court Spending

County Impact of Recent State Policy Choices

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$7.7M

JUDICIAL SALARY INCREASE

FY 2027 full impact

$10.1M

PROBATION FUNDING SHORTFALL

Absent action in FY 2026 state budget

$1.5M

COURT FEE ELIMINATION WITHOUT BACKFILL

Laws 2023, Ch. 162

$0.5M

REDUCTION IN STATE JP FUNDING

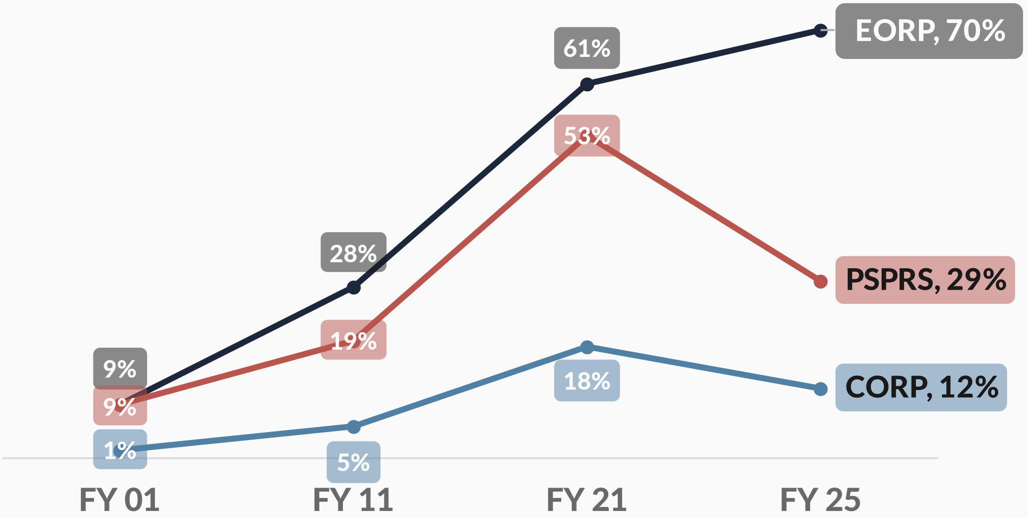
Potential shortfall in FY 2025; grows through FY 2027

Counties made historic investments in pensions to reduce taxpayer costs after substantial reforms to the systems.

- Plan design, decisions by lawmakers & prior System, & investment performance caused plans to deteriorate
- Poor funding levels causes county costs to increase rapidly, crowding out other necessary investments in public safety, detention personnel
- Counties deposited over $1 billion into PSPRS, CORP to stabilize funds, save taxpayer millions
  - 8 counties did this through refinancing the debt, still carry over $700M in bonds as of FY 2023

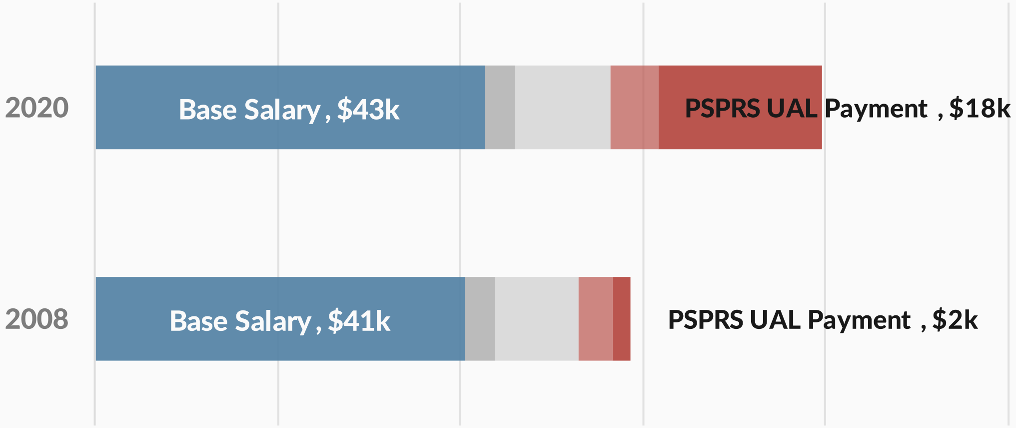
Average County Contribution Rate

PSPRS sheriff, CORP detention & EORP legacy plans



Est. Cost of a Sheriff's Deputy Position

Mohave County, FY 2008 vs. FY 2020



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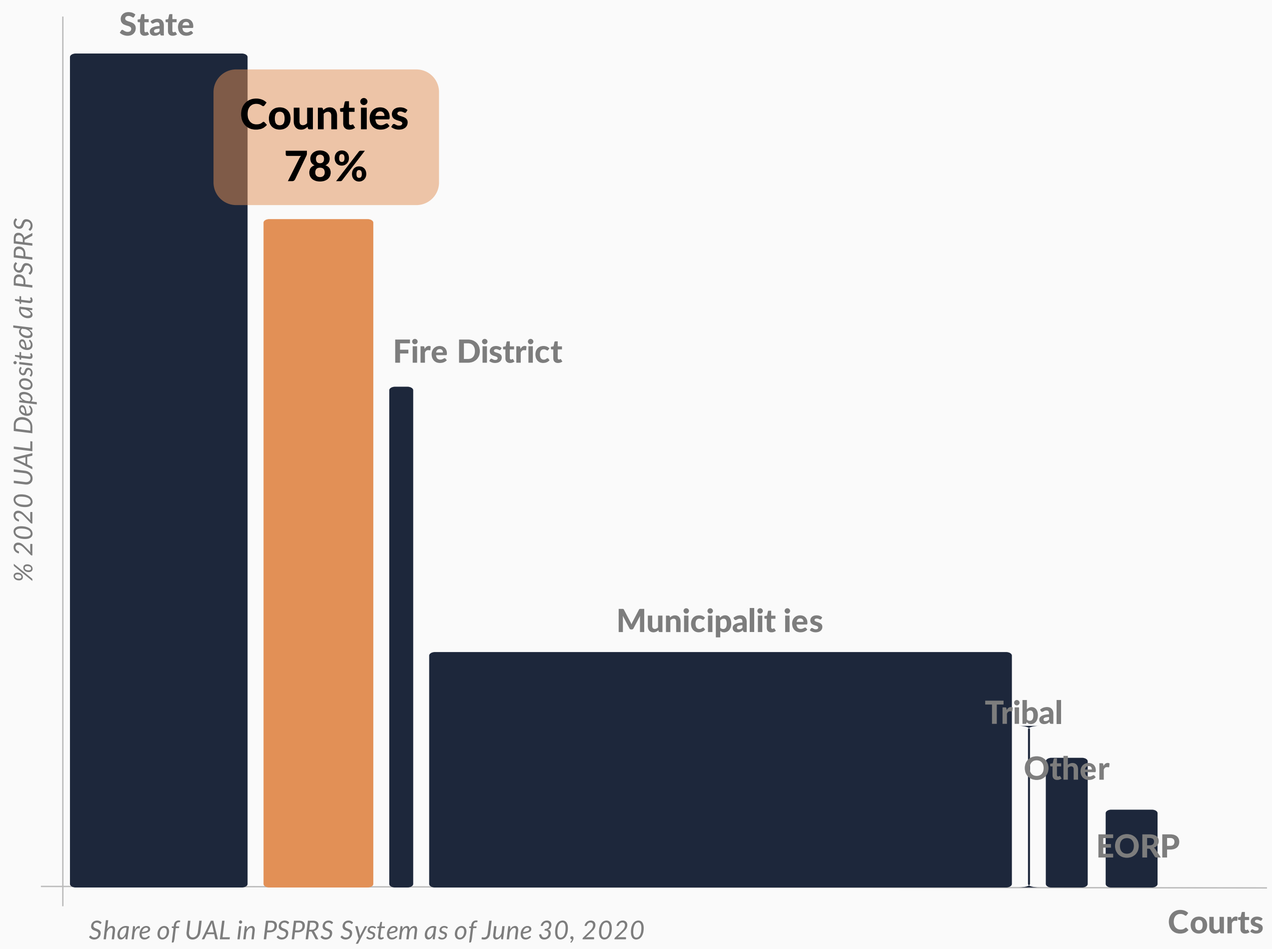
Share of legacy unfunded liability contributed since FY 2021

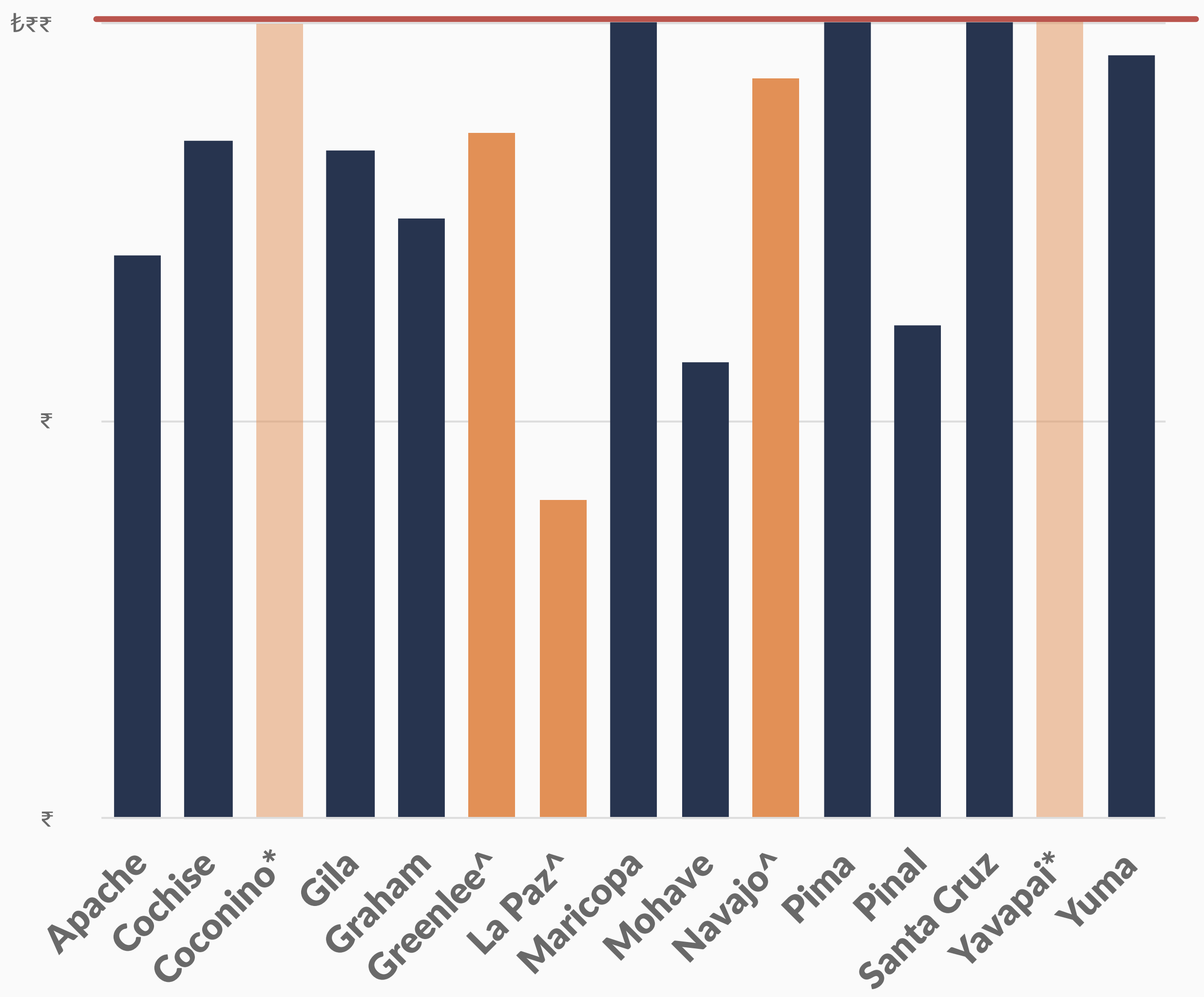


Constitution limits how much *local revenue* counties can spend

- *Local revenues* include almost all the monies received by a county, with select exemptions
- Limit adjusts annually for inflation and population growth,
  - Based on 1980 expenditures for counties that haven't adjusted limits
- May only be adjusted, on a one-time or permanent basis, by voters
  - Since 2000, voters in **5 counties** have permanently increased the limit
  - Legislature has very little discretion to modify

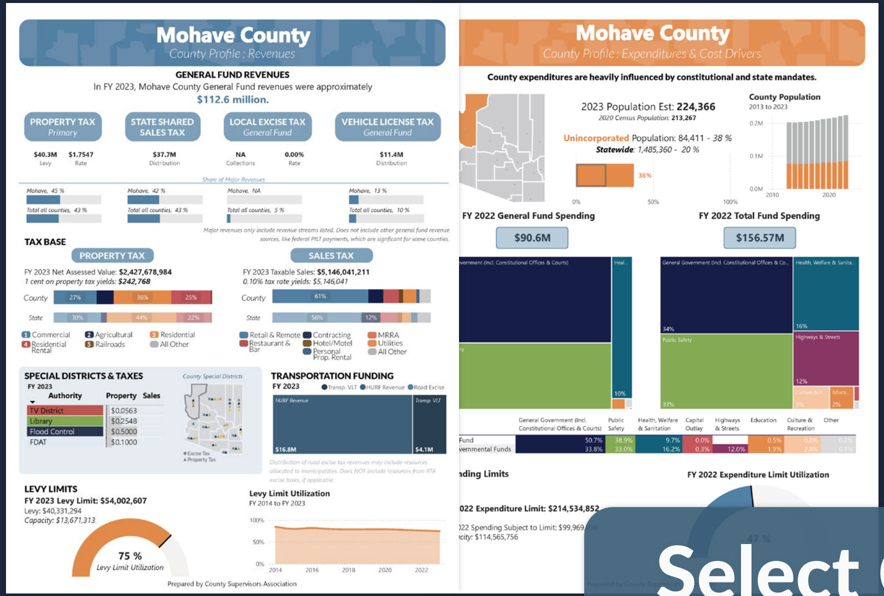
Expenditure Limit Utilization

Most recent fiscal year available, FY 2020 to FY 2023

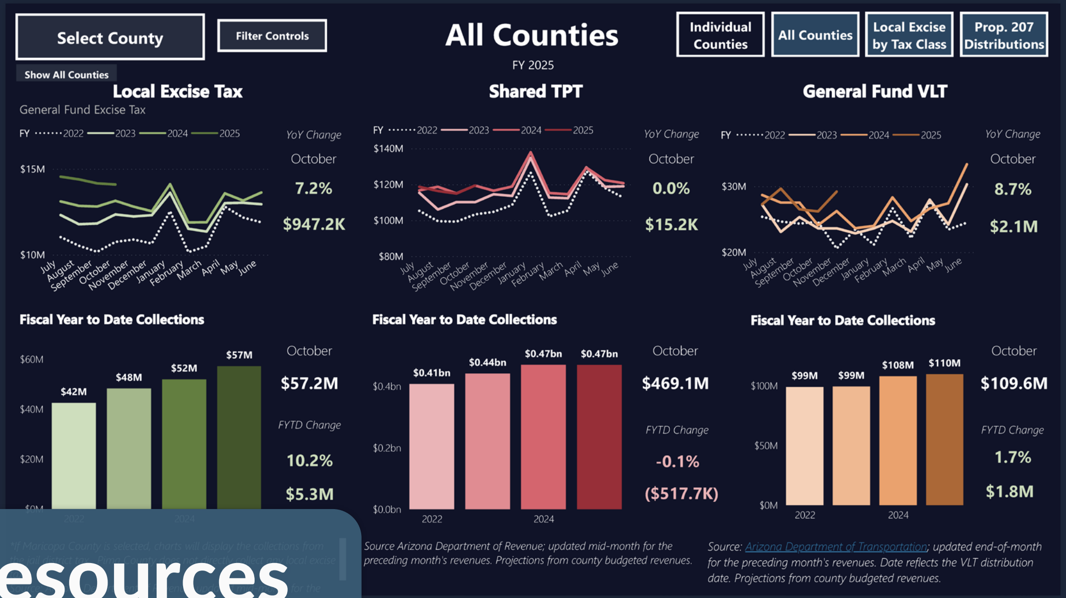


*Permanent base limit adjustment approved in 2024 election.
^Permanent base limit adjustment approved after 2000.

Interactive County Profiles



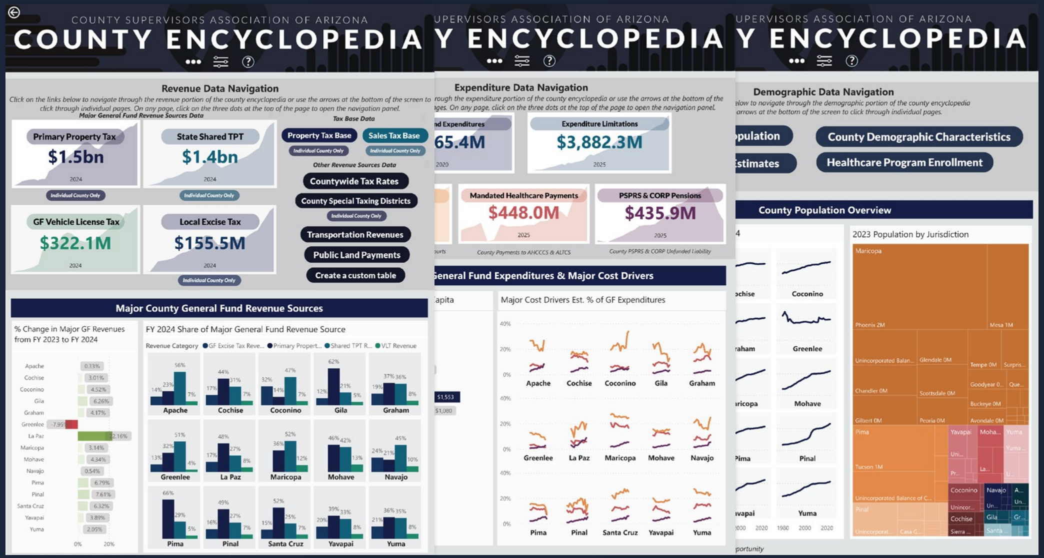
GF & Transportation Revenue Dashboards



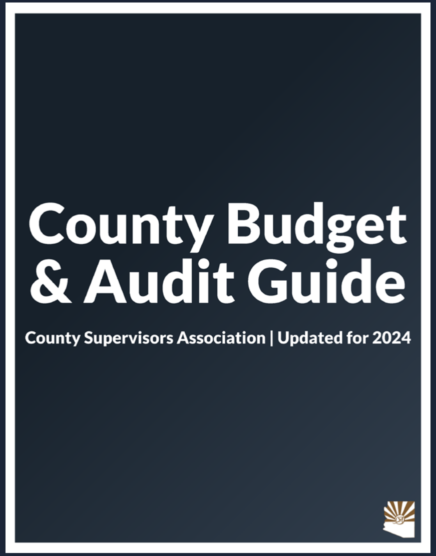
Select CSA Resources

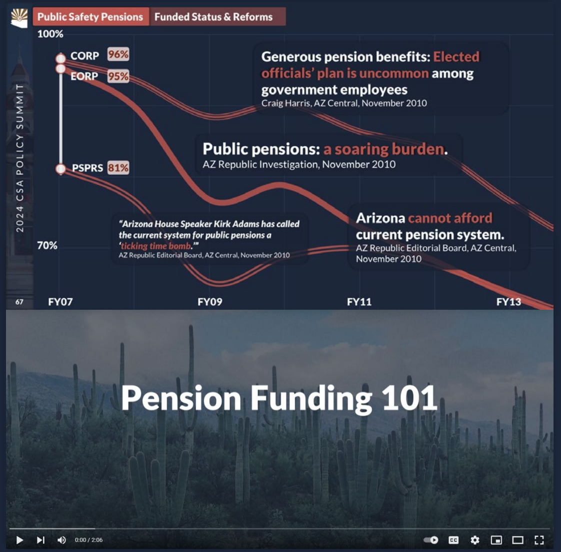
www.countysupervisors.org/data

Comprehensive County Encyclopedia



Budget & Cost Driver Resources





COUNTY SUPERVISORS ASSOCIATION

County Audits & Fraud Prevention

Jay Parke, CPA, Walker & Armstrong

General rules of thumb

- Avoiding the headlines.
- Prevention is key.

Headlines

Dixon, Illinois (2012):

Rita Crundwell, the city's former comptroller, embezzled over $53 million over two decades, making it one of the largest municipal fraud cases in U.S. history.

City of Kingman, Arizona (2015)

In 2015, the City of Kingman, Arizona, uncovered a significant embezzlement scheme involving Diane Richards, a former budget analyst and interim finance director. Over approximately eight years, Richards misappropriated more than $1 million from city funds.

Headlines

City of Placentia, California (2016):

The city's former finance services manager stole $5.2 million by creating fake invoices and diverting funds to personal accounts.

City of Baltimore, Maryland (2017):

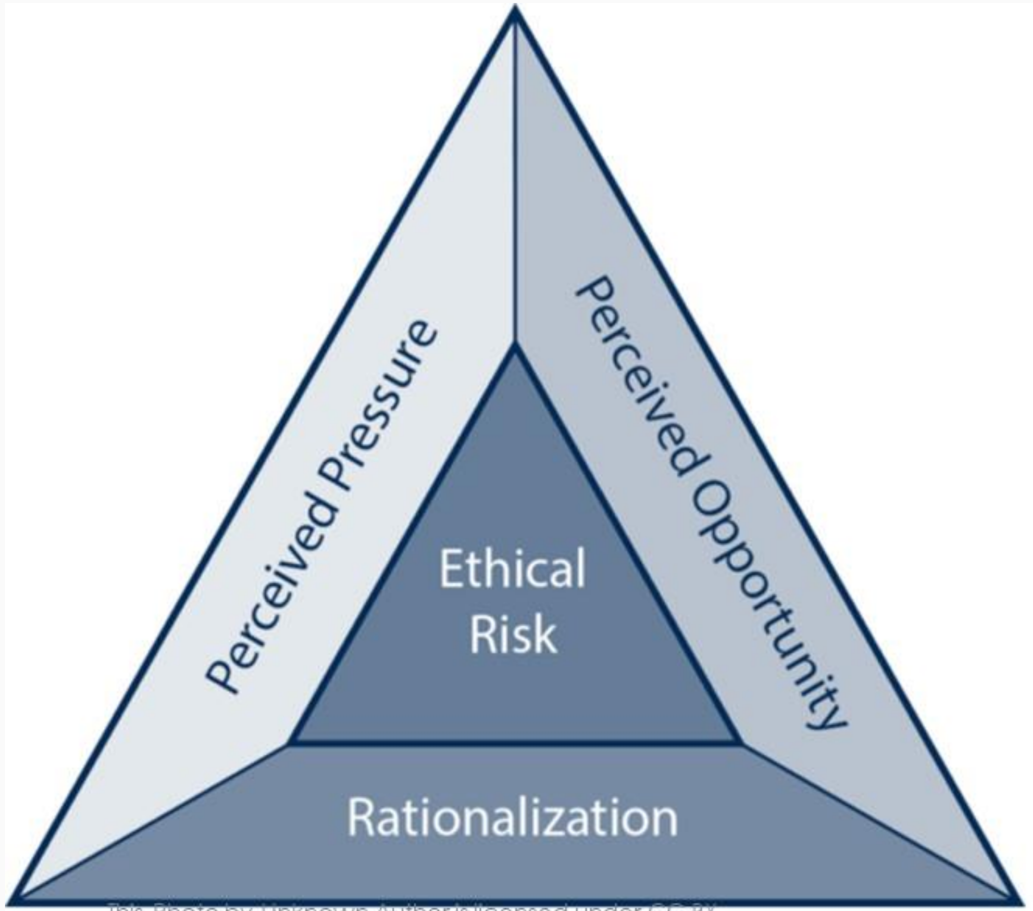
A former city employee was found guilty of a $1 million billing scheme involving fraudulent invoices for services never rendered.

Headlines

Santa Cruz County (2024):

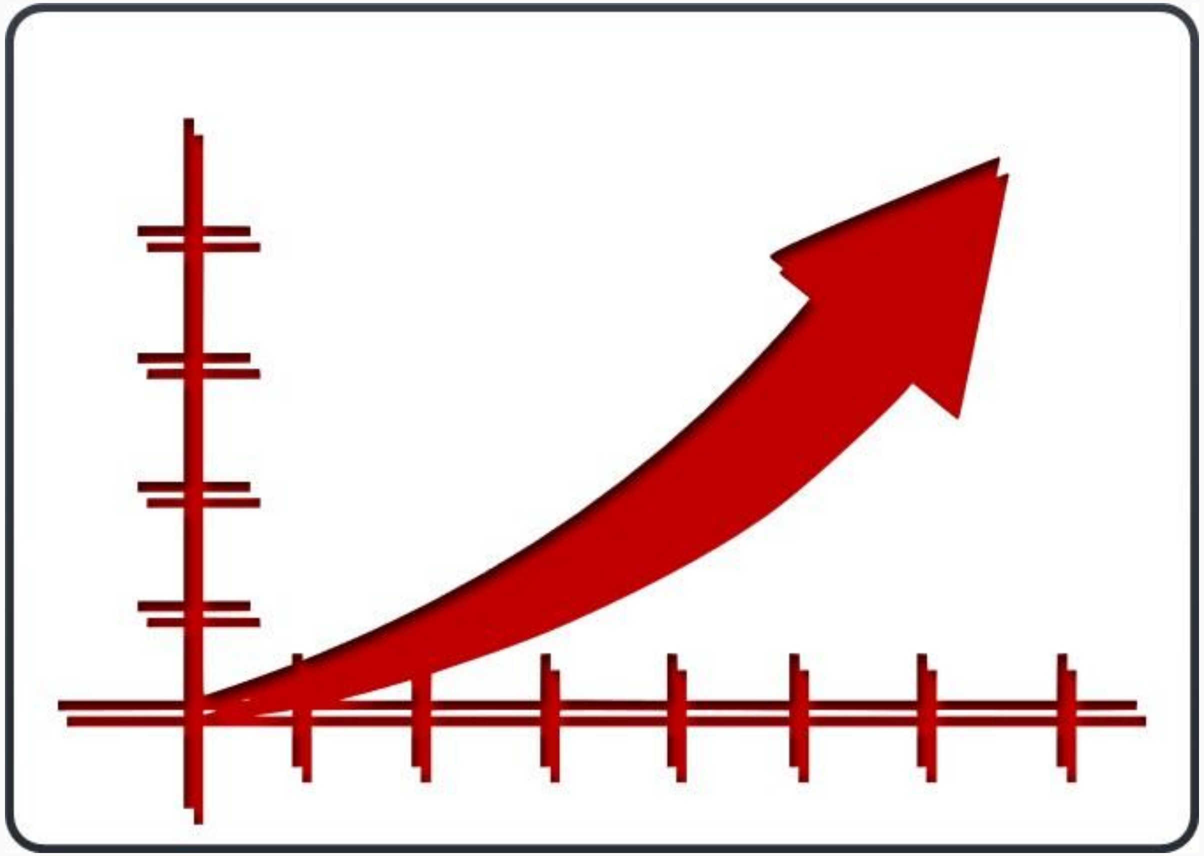
Former Arizona Treasurer pleads guilty to embezzlement of more than $38M of County's funds between 2014 and 2024.

Fraud Risks in Government

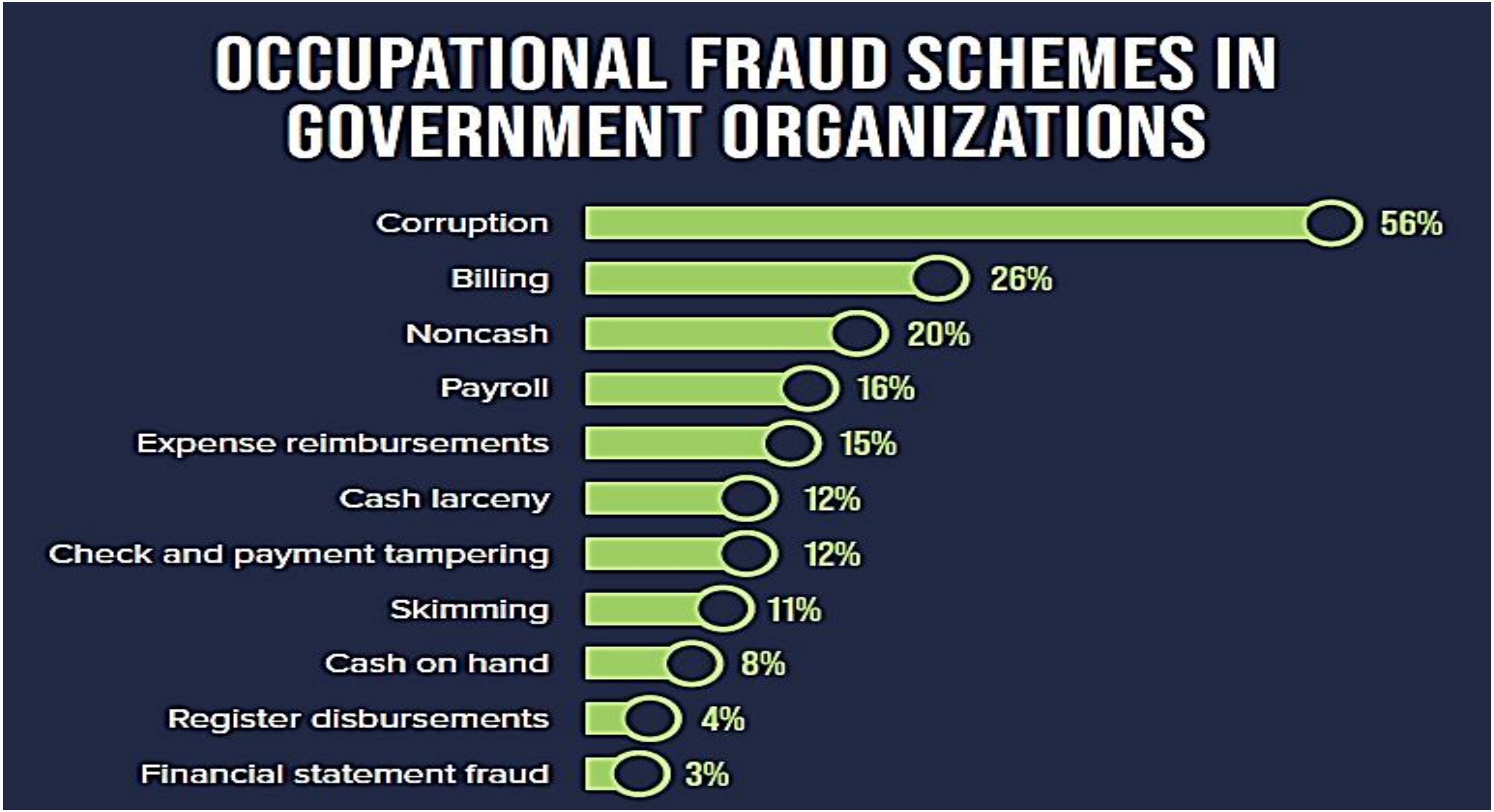


Fraud Risks in Government

- The longer the tenure, the bigger the loss.
- Most fraud is committed by those <u>without</u> a criminal record.

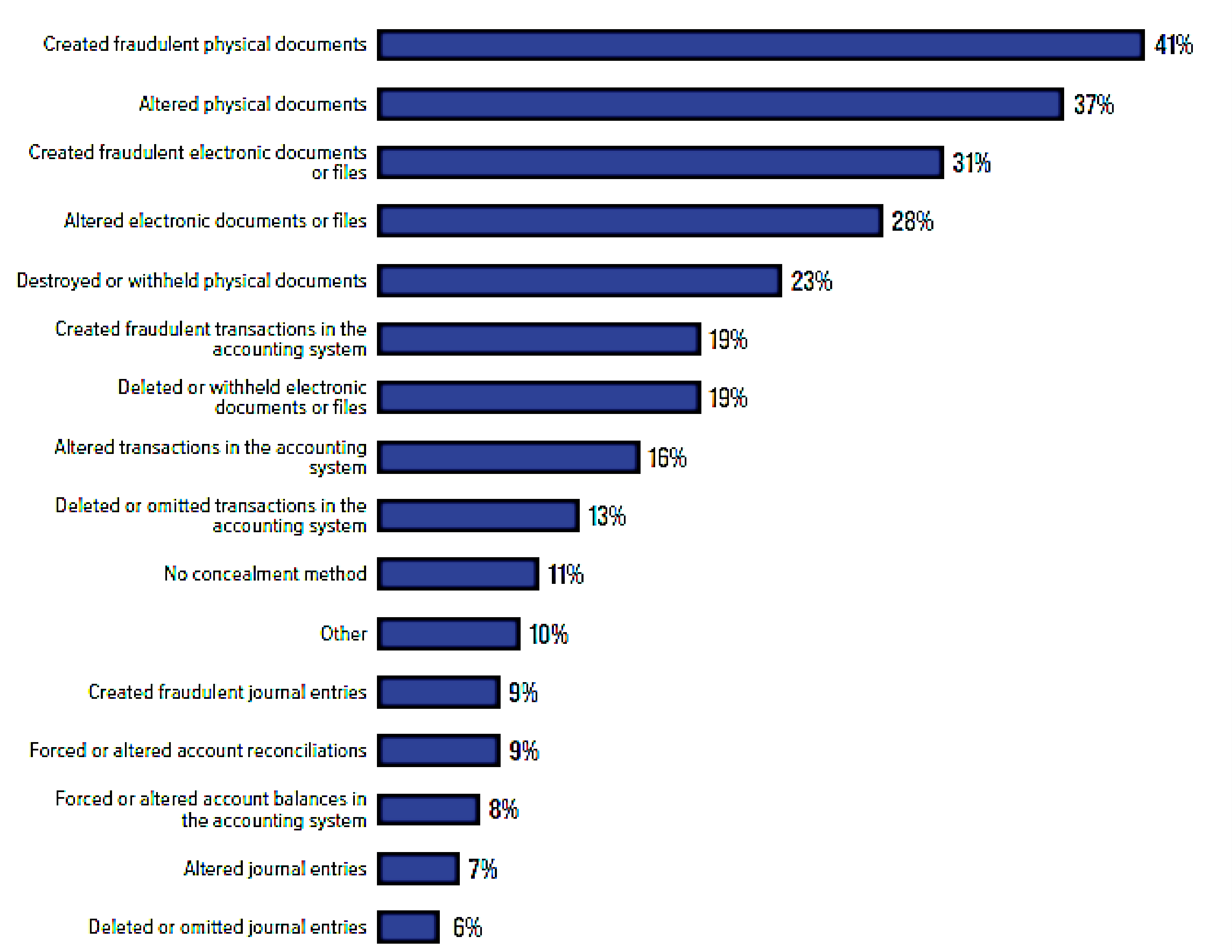


Fraud Risks in Government



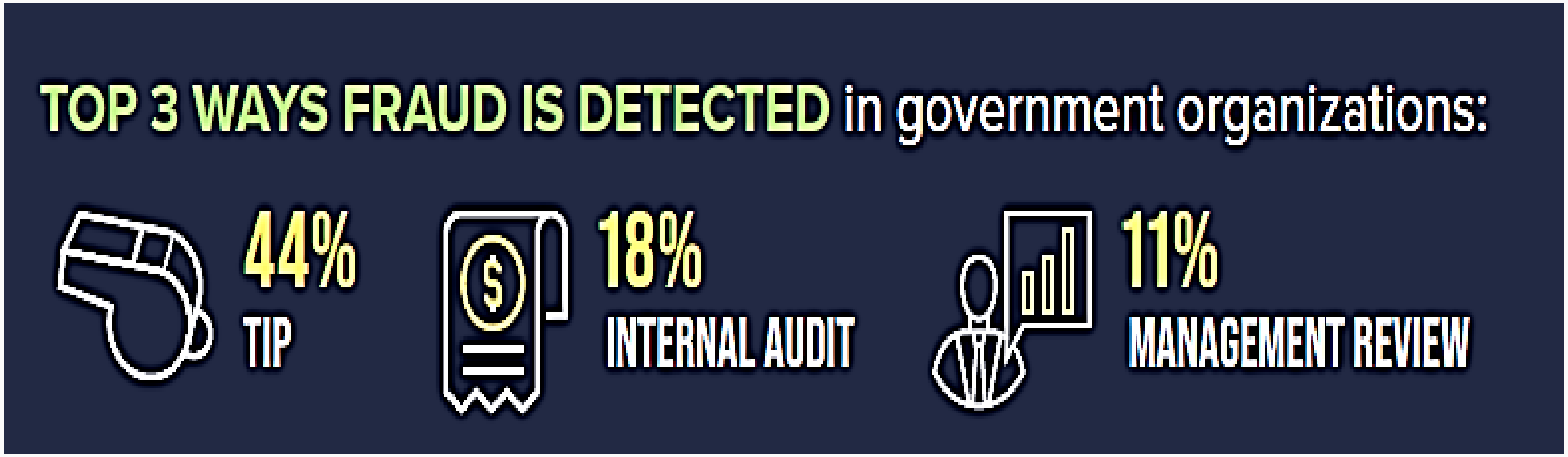
Source: Report to the Nations® 2024 Global Study on Occupational Fraud and Abuse

Fraud Risks in Government



Source: Report to the Nations ® 2024 Global Study on Occupational Fraud and Abuse

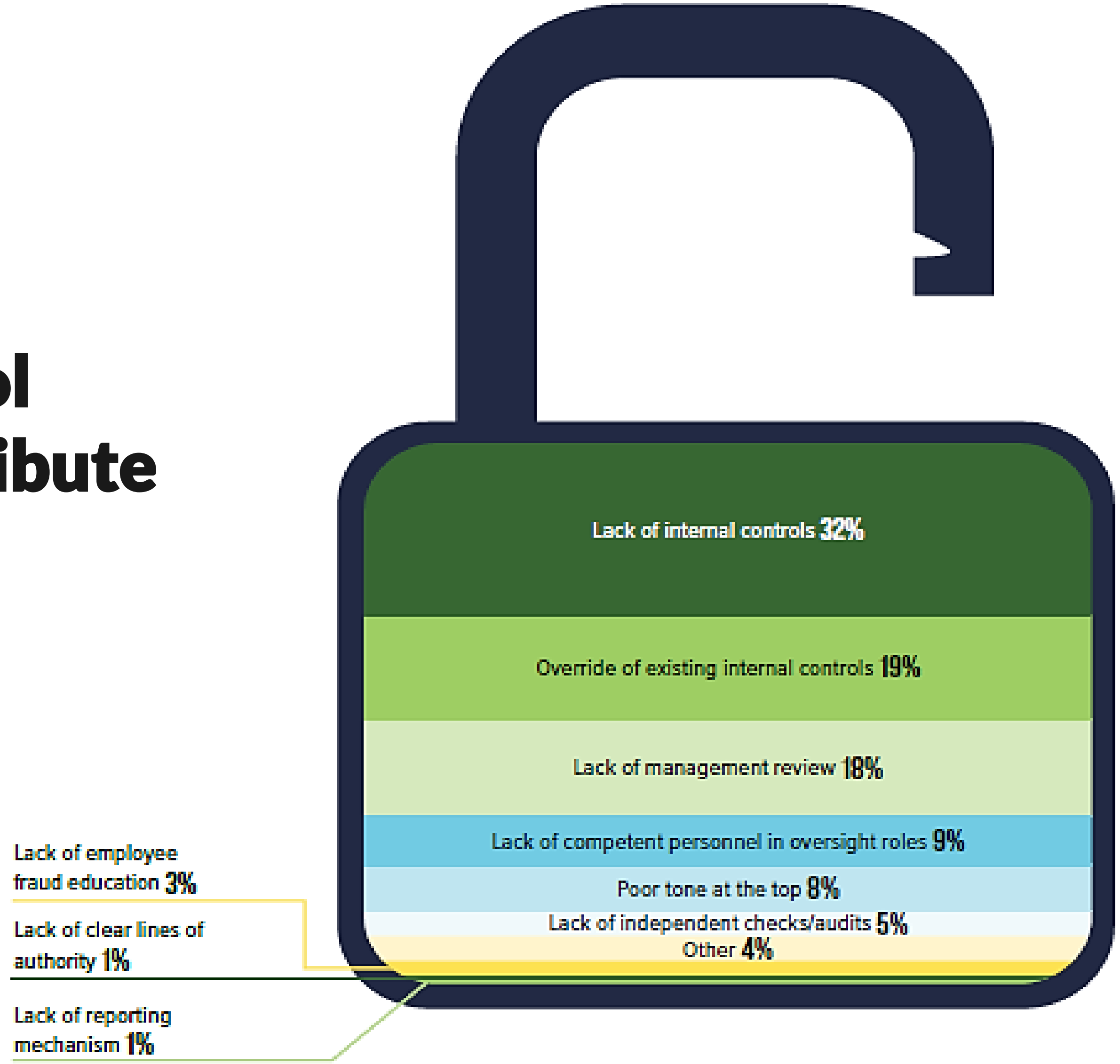
Fraud Risks in Government



Source: Report to the Nations ® 2024 Global Study on Occupational Fraud and Abuse

Fraud Risks in Government

Primary Internal Control Weaknesses that Contribute to Occupational Fraud



Source: Report to the Nations ® 2024 Global Study on Occupational Fraud and Abuse

Fraud Risks in Government

Oversight Authority

The board's authority over independently elected officials.

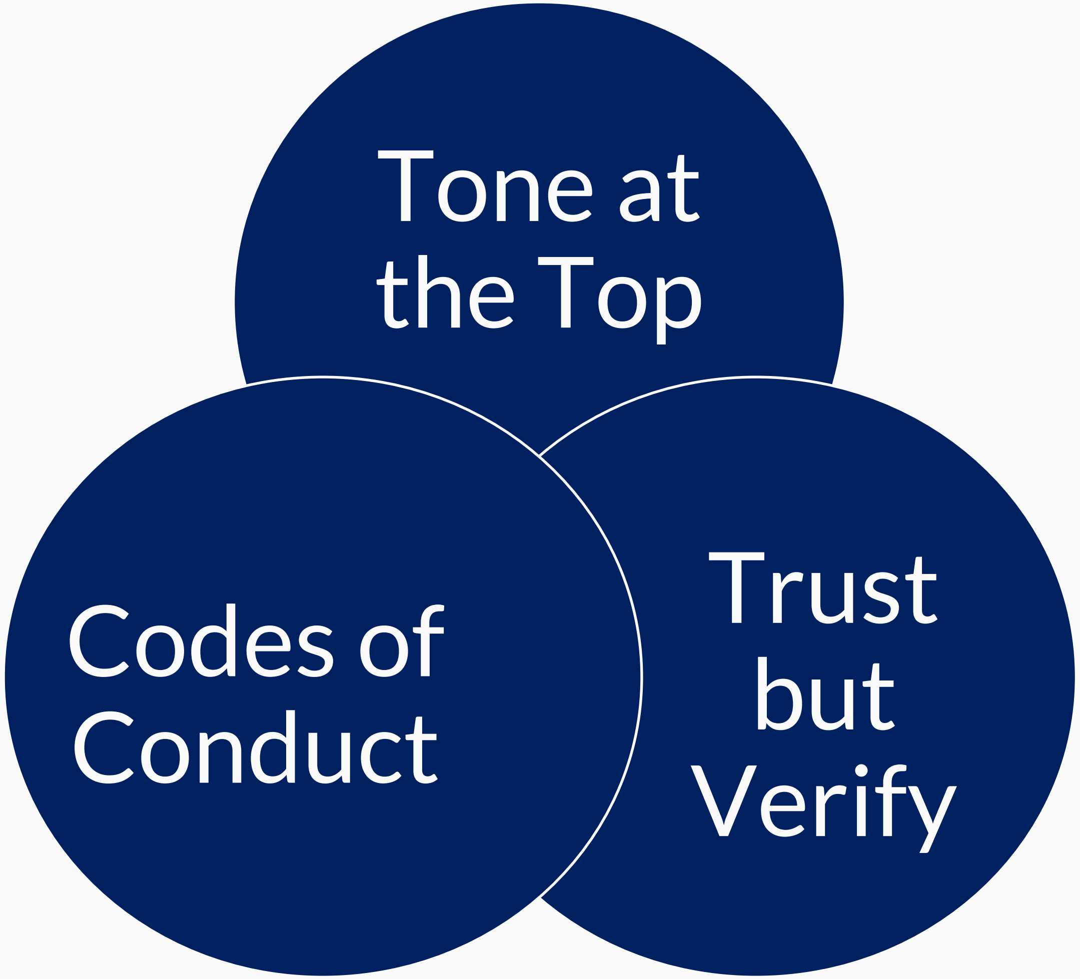
<u>A.R.S. §11-251. Powers of board</u>

The board of supervisors, under such limitations and restrictions as are prescribed by law, may: Supervise the official conduct of all county officers and officers of all districts and other subdivisions of the county charged with assessing, collecting, safekeeping, managing or disbursing the public revenues, see that the officers faithfully perform their duties and direct prosecutions for delinquencies, and, when necessary, require the officers to renew their official bonds, make reports and present their books and accounts for inspection.

- Collaboration opportunities to strengthen accountability.

Fraud Risks in Government

Establishing a Strong Ethical Culture



Fraud Risks in Government

Implementing Internal Controls

- Importance of segregation of duties and regular audits.
- Joint fraud risk assessments.
  - Decentralized operations
  - Follow the cash. Who has access to money?
  - Money going out - P-cards/travel/procurement.
  - Conflicts of interest/nepotism.
  - Gift clause.
- Devoting sufficient budgetary resources to the accounting function.
- Monitoring and reporting mechanisms.

Fraud Risks in Government

Encouraging Whistleblowing

Source: Report to the Nations ® 2024 Global Study on Occupational Fraud and Abuse

Fraud Risks in Government

Training and Education

Ongoing training for all officials on fraud prevention and detection.

Source: Report to the Nations ® 2024 Global Study on Occupational Fraud and Abuse

The Audit Process

Reporting Deadlines

- Government Finance Officers Association (GFOA) deadline for the Certificate of Excellence in Financial Reporting is December 31.

- Arizona Revised Statutes (A.R.S.) §11-661 requires counties to file a copy of their financial statements with the Arizona Auditor General pursuant to A.R.S. §41-1279.07 within 9-months after the close of each fiscal year-end. For counties that do not meet the March 31st deadline, the Arizona Auditor General requires filing the Notice of Pending Financial Statements Filing form pursuant to §11-661.

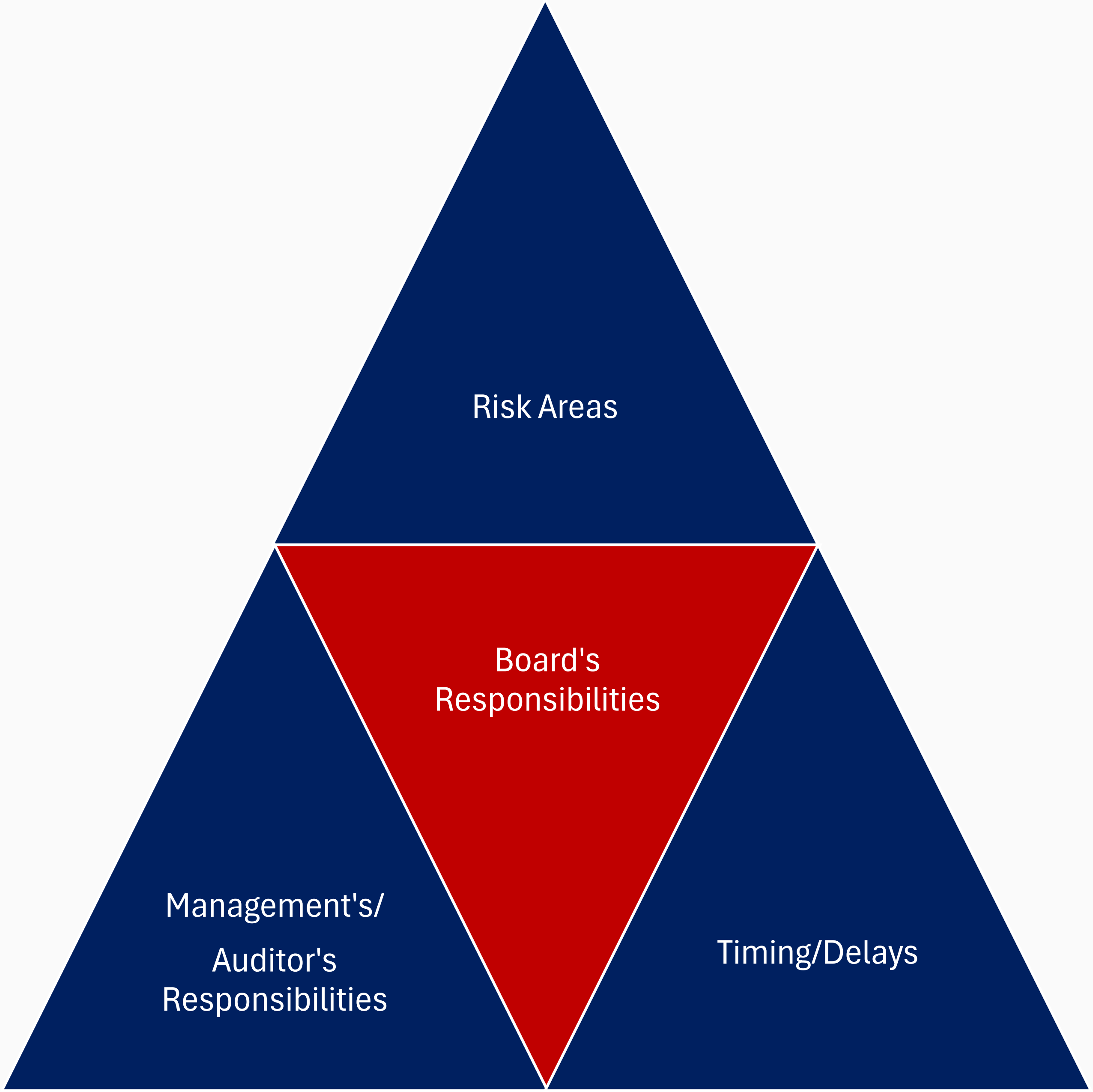
- The Single Audit deadline is also 9-months after the close of each fiscal year-end or March 31.

The Audit Process

Ideal Audit Timeline

- May/June (Interim Internal Control Testing)
- October/November (Close Accounting Records)
- July (P-Card and IT Testing)
- October/November (Fieldwork)
- November/December (Reporting)

Board's Role in the Audit Process



The Audit Process

- Risks – Counties are large decentralized organizations.

  Focusing on risk areas will improve effectiveness:

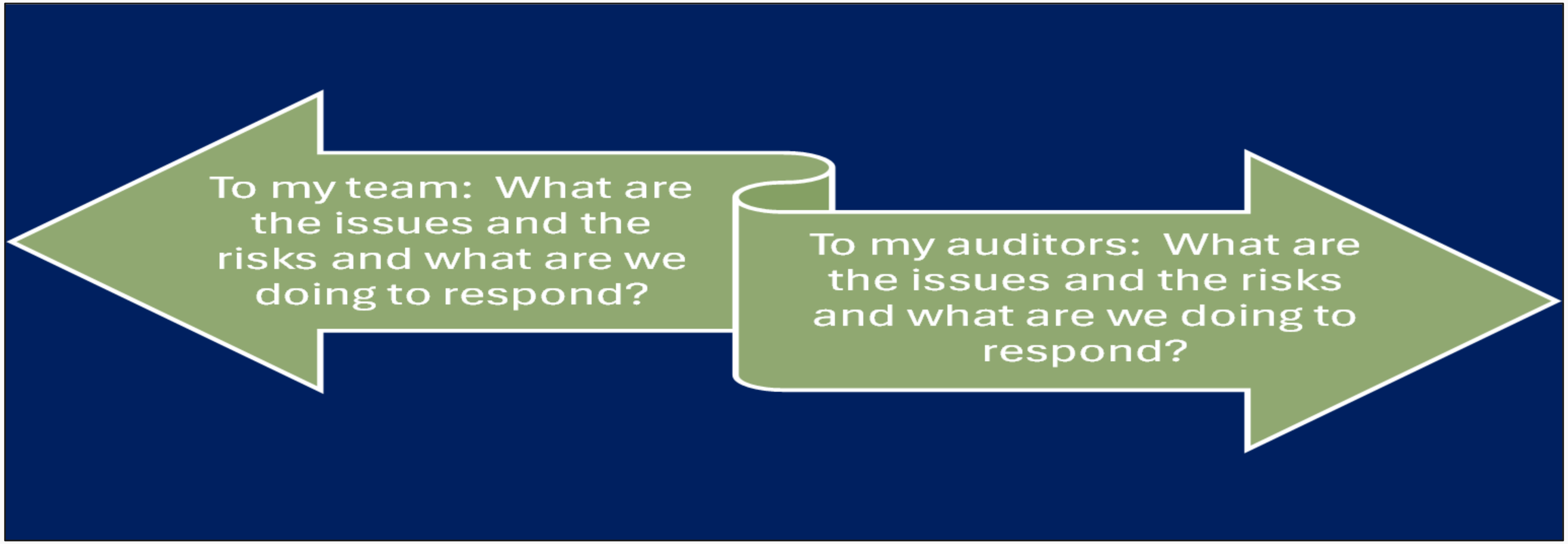
  - Bank and investment accounts – what accounts do we have and who has access?

  - Procurement – who makes the decision and what checks and balances are in place?

  - P-cards – Do we have policies and enforcement?

The Audit Process

Asking Questions



- The importance of having a questioning mind.

The Audit Process

What is the audit timeline?

- Are there delays?
- Who is responsible for delays? Management versus auditor's responsibility.

Key Audit Considerations

Lender Requirements

Grantor Agency Requirements

Late Audits

Reputational Risk

Undetected Issues

Key Audit Considerations

Liquidity/Net Position

Budget Variances

Critical Areas

Findings (Financial and Compliance)

Expenditure Limitation

Key Takeaways

Prevention is Cheaper than Remediation!