



LETTER OF TRANSMITTAL

June 17th, 2013

Honorable Board of Supervisors
and the People of Yuma County

Each year as Yuma County staff navigates through the process of preparing an annual budget, certain challenges are presented and managed. This year is no different due primarily to the continuing sluggish economic recovery. An advantage that County staff and elected officials have this year is that the fiscally responsible actions taken in previous years, and in particular the overall reduction of departmental expenditures in the last fiscal year, will allow Yuma County government to build on its success and start the slow progression forward. As we move forward, we must continue to do so together with the same unified and collaborative approach that has provided us with the stable foundation upon which we stand.

As is typically the case, the events of the past year will help to shape our course and direction for the next one. With resources remaining precious and few, the distribution and use of those resources must be carefully considered. Ensuring compliance with program requirements and strengthening resident confidence in Yuma County services will continue to be a priority.

Problems with the federal budget will likely force local government entities to absorb the cost of maintaining critical programs and services to our communities. Similarly, the state government is guarded about its apparent budget surplus. While some funding has been restored for Fiscal Year 2013/2014, we must continue down the path of self-reliance and maximize the use of the resources we have available.

Yuma County staff and elected officials are confident that the budget we present for adoption is a fiscally responsible one that furthers our continuing goal of providing critical services to our community in a most cost effective manner. The internal growth

and stability we have enjoyed within the Yuma County government family is a great source of pride and satisfaction for all of us that serve it.

Preliminary Goals

Yuma County government is blessed to have hundreds of dedicated and loyal employees that have waited patiently to be recognized and rewarded for their efforts in serving their community. The sacrifices made through a voluntary reduction in resource allocation in the last fiscal year brought with it a commitment toward making employee compensation a priority in the next fiscal year. With that in mind, every effort has been made to develop a compensation adjustment plan that is fair and equitable to all County staff, regardless of service time. Beyond the compensation adjustment, the focus of the budget preparation process has been on improving any operational areas that may be below the desired standard and ensuring that County staff has the tools necessary to perform up to those standards. Further, stabilization of all County funds continues to be an area to which our full attention is given.

As always, Yuma County's annual budget functions as a guide for County officials and their appointed staff on how to utilize the limited resources available to them. We are again challenged this year to continue with the provision of quality services while revenue growth remains slow. In particular, the following are the most significant new obligations for which Yuma County must make adjustments in Fiscal Year 2013/2014:

1. Inflationary increases in the four (4) participating employee pension programs;



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2. Premium rate increases to Yuma County's Employee Benefit Trust due to the implementation of the Patient Protection and Affordable Care Act, and a marked increase in program costs;
3. Fund stabilization to Yuma County's Public Health Services District;
4. Ongoing costs resulting from State legislative action reducing program funding or shifting program cost responsibility to Yuma County.

Offsetting these new and increased, continuing liabilities is a modest growth in both state shared sales tax revenues and local sales tax revenues. Although counties have the annual capacity to increase property tax revenues (levy) by up to two percent (2%) of the previous year's levy, plus the value of any new construction occurring during the previous fiscal year, public sentiment in Yuma County continues to disfavor any such increase in property tax assessment. In deference to that sentiment, in Fiscal Year 2012/2013 Yuma County took a very dramatic approach which resulted in the reduction of approximately \$1 million in levied property taxes. While that action was made possible by the actions of all County department heads and elected officials in their voluntary budget reductions, that kind of action is not sustainable on an annual basis. Yuma County staff has again set out to craft an Adopted Budget that would manage the liabilities without increasing property taxes.

The fiscal responsibility of the Yuma County Board of Supervisors and County officials over the past decade has resulted in a secure fund balance (reserve) in its General Fund. Continuing to maintain the fund balance at an appropriate level is an ongoing priority. Generally accepted accounting principles dictate that an agency's fund balance should be not less than 5% - 15%. Yuma County has consistently maintained a fund balance at between 17% - 25%, in spite of a recurring programmed use of several millions of dollars

from that fund balance to bridge existing structural gaps in the budget. Each year, those programmed funds are offset by the maintenance of vacant positions and spending controls (reversionary revenues). In Fiscal Year 2013/2014, this Adopted Budget will yield an end of year fund balance slightly below fifteen percent (15%). While an apparent structural imbalance exists whereby expenditures exceed revenues and are offset by reserve funds, there is a long trend of activity supporting the notion that the funds reverted at the end of the fiscal year will negate the need for most, if not all, of those reserve funds being used.

In all, this Adopted Budget reflects an increase in General Fund revenues of slightly over \$1.23 million and an increase in projected General Fund expenditures of approximately \$2.78 million. This will result in an increase to Yuma County's structural imbalance of approximately \$1.54 million. Although most of the ground will be lost to the structural correction of \$1.6 million achieved in the Fiscal Year 2012/2013 budget, the organizational benefits received through the recommended compensation and benefits adjustments are significant.

The only fund which needs stabilization attention in the coming fiscal year is the Public Health Services District fund (Health District). That fund, however, has reached a critical point necessitating immediate action. Yuma County created the Health District in 2005 to provide additional resources for the provision of health services in the community. The District is supported through a transaction privilege tax at a rate of .10% which generated approximately \$2.25 million in Fiscal Year 2012/2013. Additionally, the County General Fund provides \$786,898 annually in the form of maintenance of effort. Over the course of the past several years, the year end fund balance for the Health District has been in decline, due in particular part to the assessment of indirect cost allocation by which Yuma County's General Fund recovers funds for operational support provided to the



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Health District. Another factor is the subsidization of grant funded program indirect costs by the Health District Fund appropriation due to the inability of the Health District to recover those costs through various grant programs. The stabilization effort for the Health District for Fiscal Year 2013/2014 will include a reduction of indirect cost allocation to the Health District generally, along with consideration of additional revenue generation vehicles (i.e. sales tax increase or General Fund support) or expenditure reduction.

Management of Yuma County's Animal Control function has devolved upon the Health District somewhat by default. Although tied into rabies control which is a statutorily mandated function, typically overseen by county health departments, control of barking and at-large dogs is a discretionary function. Yuma County has an ordinance for extended animal control which has been successfully transitioned in-house during the current fiscal year. With a modest increase in program costs compared to the out-sourcing of animal control services, the Health District has absorbed the cost within its operating budget.

The future financial stability of Yuma County remains the ultimate goal in the preparation of any adopted budget. County staff adjusted to a significant reduction in expenditures and a dramatic loss of property tax revenue with relative ease this past fiscal year. We are very proud of the progress that has been made and are anxious to now start building on the foundation we have built for the future. We continue to take our obligation of presenting a balanced budget to the residents of Yuma County very seriously with the best interest of our community in mind.

The Economy and Local Revenue

As Yuma County's budget staff prepares for the coming year, we are looking far beyond our own County borders to understand what

factors should be considered in developing revenue projections. Economists are now looking at and analyzing the economy on a global level more than ever before. From the Eurozone to China, the rate of economic growth in other, competing countries has become a new, relevant factor in projecting what growth at home will be like.

This past fiscal year saw many positive economic indicators begin to develop within our nation, the State of Arizona and in Yuma County. The stock market has reached historical highs and consumer confidence is returning to levels not seen since before the "Great Recession" of the mid 2000's. The national and state unemployment rates have dropped as have foreclosures and bankruptcies, all of which are signs that people are getting back to work, managing their household obligations and staying in their homes.

In regard to state and local sales tax, there have been somewhat inconsistent indicators of what revenues might be for the next fiscal year. The recent trend at both the state and local level has been up in some months and down in others, making the process of developing accurate projections all the more difficult. The Financial Advisory Committee of the Arizona Legislature's Joint Legislative Budget Committee has recently modified its sales tax projections for Fiscal Year 2013/2014 to increase by just over 4 percent (4%). We have seen a slightly lower increase potential at the local level and we are recommending a modest two and one-half (2½) percent increase for the same period.

Crude oil and gasoline prices have remained unstable over the last year and continue to be a cause for concern regarding fixed expenditures for the coming year. Additionally, many of the expenditure reductions made in Fiscal Year 2012/2013 may be in need of adjustment. We will continue our policy of maintaining a significant reserve in a non-departmental budget for possible transfer into the departmental operating budgets toward the end of the fiscal



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year. This action will provide a safety net of sorts for largely unpredictable expenditure areas.

The arrival of the first F-35 Joint Strike Fighter aircraft at Marine Corps Air Station Yuma was a noteworthy event in the current fiscal year. The aircraft will continue to rotate in at regular intervals until all of the squadrons are operational. Additional construction to house support systems for the F-35 is ongoing within MCAS and provides a boon to our local economy. Construction and expansion of renewable energy projects throughout Yuma County continues to provide opportunities for the local construction industry. Residential construction permitting activity has been sporadic with increases in some months but not in others. The liquidation of existing inventory of residential properties remains at less than 50 percent, and new construction is likely to be limited until existing new homes are selling more consistently.

Property values continue to decline but we anticipate that Fiscal Year 2013/2014 will be the last in which we experience a compression in net assessed values. For the coming year, property tax rates will have to be adjusted upward in order to collect the same amount of revenue during the next fiscal year. Property owners within Yuma County continue to be vocal in their concern about raising property taxes while the economic growth struggles. Yuma County staff has considered that community sentiment and made every attempt to craft an Adopted Budget that does not include an increase in the property tax levy.

The overall outlook for Yuma County's economy is positive, but guarded. There is little doubt that our community remains poised for growth in new industries; however, the timing and rate of that growth is dependent on variables largely beyond our control in county government. In Fiscal Year 2013/2014, we will continue to support economic development activities and work with business leaders to

attract prospective employers to Yuma County.

Compensation and Benefits

Recognizing the hard work, dedication and patience of Yuma County employees was the primary goal in developing the Fiscal Year 2013/2014 Adopted Budget. Due to the length of time since Yuma County's last compensation adjustment, County staff is acutely aware of the potential for salary compression to occur with the implementation of an adjustment now. Employees that have served in a particular capacity over a number of years should maintain a degree of separation in compensation from those more recently employed. To do otherwise would be inequitable. The approach to avoid such an inequity will be to establish strict eligibility standards for potential salary increases. Employees serving for two (2) years or less as of July 1, 2013 will not be eligible for an increase this year; employees with more than two (2) years but less than five (5) years of service as of July 1, 2013 will be eligible for a one-half (1/2) step increase of two and one half percent (2 ½%); employees with at least five (5) years of service will be eligible for a full step increase of five and six hundredths percent (5.06%). The same methodology will be used for Judicial Merit System employees, with the only distinction being that two and forty five one hundredths percent (2.45%) is equal to one (1) full step on that plan and employees with at least five (5) years of service will be eligible for two (2) full steps.

The Patient Protection and Affordable Care Act (ACA) will be fully implemented in the coming fiscal year. Accordingly, significant changes will need to be made to the Yuma County Employee Benefits Trust program in order to be in compliance with the ACA and to avoid future financial penalties for non-compliance. Along with those changes, marked increases in the cost of operating the health benefits program this past year will result in the need to increase premium rates for both Yuma County and its employees.



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The root causes of the cost increase to the program are from an inordinate need for specialty medications and a lack of generic products to compliment that need. A first step in addressing these issues is the elimination of one of the existing plan options and consolidation of the health plan into two (2) options.

The reclassification of employees who have been asked to perform duties exceeding those called for in their existing job descriptions is always a priority. There were thirteen (13) County requests submitted and reviewed by Human Resources Department. Of those, nine (9) were recommended to, and approved by, the County Administrator. Three (3) requests covered by the Judicial Merit System for classification or title changes were submitted and approved with no budget impact.

Yuma County will continue to build on the success of our Loan Repayment Assistance Program to recruit and retain qualified attorneys. The Tuition Assistance program continues to develop a more well educated and qualified workforce in County government. The On-Call Duty Pay program for those employees who are required to be available on traditional non-working hours has been a welcomed benefit to those employees providing on-demand services.

Personnel

We continue to recognize that certain areas within County government remain understaffed in relation to preferred standards. Particularly, the resident to Deputy ratio for the Yuma County Sheriff's Office and the Detention officer to detainee ratio in the Juvenile Detention Center remain well below what is generally acceptable in those environments. As a result, those entities are encouraged to continue identifying and requesting the personnel necessary to meet the needs of the community. While the Sheriff's Office did make such a request for Fiscal Year 2013/2014, the

Juvenile Detention Center did not in favor of other, more immediate needs.

Justice Court Precinct Two underwent an audit by the Administrative Office of the Arizona Supreme Court in Fiscal Year 2012/2013 which resulted in recommendations to improve efficiencies within that office. As a result, and at the specific request of the Presiding Judge of the Superior Court, one and one-half (1 ½) General Fund Clerk positions are included in the Adopted Budget for that purpose.

The Yuma County Sheriff's Office has been an active partner with the Yuma County Health Department in the implementation of the County Animal Control program. The first year of the program has identified some areas that need support to allow for complete program development. Accordingly, the Adopted budget includes one half-time (.5) dispatcher (General Fund) position for the Sheriff's Office to assist with animal control calls for service, and one half-time (.5) Animal Control Officer position (maintained by the Health District but temporarily supported by the General Fund) to maintain an adequate response level to calls for service.

The Sheriff's Office has also requested funding at thirty percent (.30) of a General Funded Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) position to be jointly funded by the Arizona Department of Public Safety for the additional seventy percent (.70). Due to the sharp increase in the mortality rate within Yuma County, there is the need for the Sheriff's Office Medical Examiner program be increased by one (1.0) full-time Deputy Sheriff to be permanently assigned to that program. Funding for the gang intelligence officer and mid-year funding for the additional Deputy Sheriff position for the Medical Examiner program are included in the Adopted Budget.

The Juvenile Court mediation caseload has increased by more than



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fifty-seven percent (57%) over the last two (2) years. A shortage of contract mediators necessitates the management of these matters with internal staff. The Adopted Budget includes an increase of one-half (.5) position to be combined with an existing one-half (.5) position from the Superior Court to provide for this service.

The Superior Court Judicial Assistance Unit has increased collections of fines and fees dramatically over the past several years. In an effort to continue with the increase in collections, a new program of predictive dialing to debtors has been proposed and an additional Collections Specialist position is included to manage the system.

In the General Fund, a total of 44.51 new positions were requested for Fiscal Year 2013/2014. Of those requests, twenty-six (26) are for the Sheriff's Deputies needed to reach the desired standard. A net increase of 5.51 full time employee positions is included in the Adopted Budget.

For special revenue funds, which includes all special taxing districts, grant and fee funded programs, a net increase of 1.7 positions was cumulatively requested by those departments and offices. A net increase of .7 full time positions is included in the adopted budget.

In all, a net total of 46.21 positions were requested by all departments and offices combined. A net increase of 6.21 positions are budgeted. This includes an error correction of .21 full time positions to restore budget authority to the County Administrator's Office for a Chief Deputy Administrator position.

We will continue in Fiscal Year 2013/2014 with the process of reviewing all positions that become vacant throughout the year for the necessity of maintaining them. This vacancy review process has proven to be very effective in monitoring the operational necessity of all positions.

Capital Improvements

Because there is little ability to program any new appropriation into the Capital Improvement Program (CIP) for Fiscal Year 2013/2014, the carry forward amounts left in the CIP account will be the only resources for use on new or ongoing projects. The County's Storage Area Network, which provides digital storage space for all of Yuma County's network applications is the most significant project budgeted. The CS1000 Phone System Replacement project, originally budgeted in FY12/13, is now included in the Fiscal Year 2013/2014 budget. Otherwise, the maintenance and long-term viability of existing facilities will be a priority, including new roofs for certain facilities, miscellaneous improvements and an expansion of the ongoing energy efficiency project. County staff recognizes that in order to avoid costly replacements in the future, we need to continue investing in our existing assets.

The East County Facility has been completed and is open for business. The next major facility project that will be pursued in Fiscal Year 2013/2014 will be the acquisition and renovation of an Administration Annex on Main St. across from the existing Administration Building. The Annex will house several County departments and offices; though the identity of those departments is as yet undetermined pending a space needs study and the development of schematic design concepts. A purchase agreement funding mechanism will be utilized to finance the acquisition and renovation costs.

In addition to information technology, geographic information systems (GIS) are constantly changing and in need of upgrades, due mainly to the growth in our community and the ability of system providers to develop enhanced photographic imagery and applications that promote operational efficiency in so many different departments. Funding for the next phase of the GIS system upgrade



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is included in the Adopted Budget.

In all, nine (9) existing or new General Fund projects are budgeted for Fiscal Year 2013/2014, as follows:

1. Administration Annex
2. Energy Projects
3. County Facility Roofing Replacements
4. Misc. General Services Construction (revolving)
5. County Cemetery
6. Storage Area Network Replacement
7. CS1000 Phone System Replacement
8. Orthogonal and Oblique Imagery for GIS
9. Election Vote Center Expansion Project

Historically, Yuma County budgets have provided for a variable contingency within the capital improvement program. Last fiscal year, an emergency repair and maintenance project was established within the capital improvement program which had the effect of specifically identifying what non-project specific funds were available within the overall program. Although that program proved effective, a lack of available funding will cause the concept to be discontinued in favor of a return to the variable contingency with a very modest balance.

Closing

Reflecting back on the past fiscal year, I am truly amazed at the stability Yuma County government has been able to achieve in spite of the continuing obstacles placed in front of us. The growth concept we employed was to first streamline our processes down to the absolute basic necessities and then build back up from there. Having accomplished the first task (that of scaling back) we are now

poised to grow on the strong foundation that is in place. That growth may be a slower process than some may prefer, but our patience and resolve will make us better servants to our community.

The strength and continuity of Yuma County's Budget Review Team showed again this year in the Adopted Budget that is presented. Making the difficult decisions that are required through the budget development process is never easy. Having the support, creativity and dedication of a seasoned staff of budget professionals makes administration of the process thoroughly enjoyable.

Yuma County as a community continues to increase its involvement in County government. Because our residents believe that they can make a difference by sharing ideas in a constructive manner, Yuma County government is a strong, vibrant and ever evolving public agency; one of which I am proud to be a part.

Respectfully,

Robert L. Pickels, Jr.
County Administrator



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