



LETTER OF TRANSMITTAL

June 15th, 2015

Honorable Board of Supervisors
and the People of Yuma County

Sesquicentennial was a word added to our collective vocabularies as Yuma County ushered in and celebrated its 150th year in 2014. Drawing on the fortitude and perseverance that it has taken to grow our community since the County's inception, Yuma County government was again put in a position of adapting to negative circumstances. A new Governor and apparently unified legislative leadership continued with what has become a seemingly new standard of shifting fiscal responsibility for operation of State agencies and programs onto local government. This past year has been one of resilience for Yuma County and our employees as we have been forced to work with fewer resources while our state government achieved fiscal stability. In spite of our best defensive efforts, we have stood at the bottom of a chasm and watched as potentially crushing burdens were thrust upon our local taxpayers by decisions made at the State Capitol. Regardless, we have followed in the spirit of those early Yuma County residents and crafted an Adopted Budget that is balanced, responsible and forward-thinking.

During the consideration of last fiscal year's budget, many lingering questions about Yuma County's long term fiscal stability were left unanswered. Although a healthy fund balance remained, so too did a significant structural imbalance between revenues and expenditures. The fund balance saw a significant decline at the close out of last year and efforts began this year to identify an appropriate solution. In researching various options and models to effectively plan for the future, it was resolved to begin the development of a long term financial plan. From establishing collectively desired social outcomes to developing the policy framework within which sound fiscal decisions can be made, the long term financial plan will form the basis for how all County resources are generated and allocated in the future. Our hope is that the community will actively participate with us in the development of the plan and offer their perspective into what our priorities should be over the next ten (10) year period.

A fair amount of risk was assumed as we adopted last year's budget without knowing whether or not Congress would see fit to fund the Payment in Lieu of Taxes (PILT) program. Although such funding did materialize late in the calendar year, a permanent funding mechanism is still lacking and the uncertainty over PILT will force Yuma County to once again budget for resources that may or may not be available. While this is less than optimal from a fiscal planning perspective, it has helped Yuma County to avoid more drastic, draconian actions that would impact our workforce and the services we provide in a negative way. A challenge moving forward is determining what level of tolerance toward risk we can incorporate while still preserving County resources.

Yuma County has been fortunate in the aftermath of the Great Recession to not have experienced any significant personnel related changes, other than reductions in force due to ordinary attrition and modest adjustments to operational expenses. It is fair to say that we have stretched our budgets to their maximum limits for each of the last several years. However, it appears likely that the coming fiscal year will be one in which corrections must be made in order to reconcile the conservative decisions made in the past with current fiscal conditions. Both the General Fund and Library District Fund will require considerable attention toward maintaining the stability of each.

It is exciting to consider the possibility of developing the standards upon which future generations of public servants will rely in determining how best to utilize community resources. What we do today will establish the foothold for climbing up out of whatever deep place we may find ourselves in when other questionable decisions are made by others that impact our livelihood.

We have had to remind ourselves recently about the need for everyone in public service to be accountable to constituents for the decisions that we make on their behalf. The decisions that have resulted in this Adopted Budget have been the result of significant reflection and collaboration. We are proud to present it to the people of Yuma County and we will stand behind it and the resulting decisions that are made in the application of it.



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Preliminary Goals

The first step in any annual budget preparation is to assess the resource needs as determined by the Department Heads and Elected Officials that are responsible for effective delivery of services to the community. From there, available revenues are analyzed and matched to meet the identified needs. Ultimately, a fixed amount is identified and balanced against the County's reserve needs.

The needs of our most valuable resource, the personnel that make up Yuma County government's workforce, also must be given the appropriate amount of attention in the budget preparation process. Each year, we evaluate the possibility of providing compensation adjustments and other incentives to appropriately reward our employees for their dedication and service. The cost of attrition is something that we have begun to calculate and factor into our decision making process for employee retention. In recent years, we have had severe limitations in our ability to structure many compensation increases, but we always give this serious consideration.

For the coming year, Yuma County's employees will once again be asked to adapt to difficult circumstances and to take on more responsibility for the well-being of their families. We have taken great pride in our ability to provide cost-free health care premiums for employees, and that will continue with this Adopted Budget. However, employees will be asked to shoulder more of the burden this year for covering their spouses and dependents.

As always, Yuma County's annual budget functions as a guide for County officials and their appointed staff on how to steward the resources entrusted to them. Revenues, although slow, have begun to stabilize and we are experiencing a somewhat higher degree of certainty as to what to expect from our various revenue sources. In particular, the following are the most significant new obligations for which Yuma County must make adjustments in Fiscal Year 2015/2016:

1. New and ongoing costs resulting from State legislative action reducing program funding or shifting program cost responsibility to Yuma County for State obligations.
2. Premium rate increases to Yuma County's Employee Benefits due to continuing increases in program costs;
3. Fund stabilization to Yuma County's General Fund and Library District;
4. Reimbursement to the Public Safety Personnel Retirement System and Corrections Officer Retirement Plan for benefits withheld following the passage of SB 1609 which was ruled unconstitutional by the Arizona Supreme Court.
5. License and user fees related to the implementation of a new public safety data management system.

The seeming stabilization in both state shared sales tax revenues and local sales tax revenues will help to offset some of these impacts, but it seems clear that utilization of heretofore reserved property tax capacity will be necessary as well. The decision in Fiscal Year 2012/2013 to reduce the property tax levy by approximately \$1.1 million has had lasting effects. That action appeared to be appropriate at the time in light of Yuma County's better than expected fund balances due to unanticipated revenue events. However, the structural imbalance has remained and the 2012/2013 downward adjustment only accelerated the need for an eventual adjustment. The structural imbalance is now at a critical point where failure to make a correction at this time could result in a negative fund balance within the next five (5) years.

Continuing to maintain the fund balance at an appropriate level is an ongoing priority for Yuma County. What the baseline should be was a question asked during the budget discussions for the current fiscal year. Generally accepted accounting practices 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). However, there has not heretofore been



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a formal policy adopted by the Yuma County Board of Supervisors that would establish a specific baseline and/or range within which the fund balance needs to maintain. The adoption of a long term financial plan will establish such a specific baseline and range.

This past fiscal year saw the first significant decline in the County's fund balance from approximately 25% of the total General Fund budget to approximately 20%. The current fiscal year is projected to continue with that negative trend and result in a fund balance of approximately 15.8% of the total General Fund budget. In Fiscal Year 2015/2016, this Adopted Budget would yield an end of year fund balance of approximately 13.8% of the total General Fund budget. This obvious structural imbalance whereby expenditures exceed revenues will continue to deplete reserve funds at an unsustainable pace unless a significant correction is made in the short term. To this end, the Board of Supervisors adopted a primary property tax levy of \$27,036,032 (inclusive of new construction), an increase of \$2,998,262 over the Fiscal year 2014/2015 levy.

In all, this Adopted Budget reflects an increase in General Fund revenues of approximately 4.99 million and an increase in projected General Fund expenditures of approximately \$2.1. Additionally, poorer than expected personnel savings will cause the personnel reversion (technically a reduced expenditure) to be adjusted downward by \$270,321. This will result in a slight decrease to Yuma County's structural imbalance but will have an insignificant impact on its overall reduction. This is due to the fact that the fund balance is projected to decrease by \$2,881,825 during the current fiscal year, which will leave a significantly lower starting fund balance for Fiscal Year 2015/2016. Although this Adopted Budget programs less fund balance use to achieve an overall balanced budget, the proportional impact in light of the lower beginning fund balance does not result in an offset.

In addition to the General Fund, the only other fund which needs immediate attention in the coming fiscal year is the Library District. Following successful construction and staffing of the new facilities supported by the voter approved bond program, it took several years to adjust operating expenses to meet the program needs of the new facilities. Complicating this has been the fact that the District fund balance has been misleadingly high in comparison to the operating expenses. As recently as Fiscal Year 2014, that fund balance was equal to 100% of the District operations budget. The decision was made several years ago to maintain the tax rate and work down the District fund balance over time so that it would be consistent with other funds within Yuma County government. Beginning in Fiscal year 2012/2013, the District fund balance started what was then a slow correction. However, with the net assessed property values receding, due to the impact of the recent recession, that correction has been rapidly accelerating over the past two (2) years. At the current rate of decline, the District fund balance will be a negative amount in Fiscal Year 2018/2019. Added to this is the fact that various anti-tax groups continue to advocate for a cap to be placed on secondary property tax increases in Arizona. If such a cap is implemented (2% would be consistent with the primary cap), then the ability of the District Board of Directors to adjust the tax rate and levy will be severely limited. Accordingly, it is prudent to consider adjustments to stabilize the fund balance. As such, this Adopted Budget includes an increase to the Levy for Operations of \$454,574.

The Jail District has been vulnerable to the fluctuating local sales tax which Yuma County has experienced over the past several years. Significant operational adjustments have been made to offset declining revenues and stabilize the District fund balance. During the current fiscal year, the impact from Department of Justice policies that decline to prosecute federal narcotics offenses and force local jurisdictions to assume the federal government's responsibilities has had a significant impact on the Jail population and District resources. Although the full impact of these policies is still uncertain, it is likely that the Jail District will require some General Fund support if the trend continues.

County staff has adjusted to a significant reduction of property tax revenue with relative ease since Fiscal Year 2012/2013. However, the structural imbalance has continued to exist within the General Fund and



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can no longer be sustained. 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. Fiscal responsibility often means making choices that are difficult in order to preserve long term stability.

The Economy and Local Revenue

A look at the local economy necessarily involves some analysis of residential development and the related construction industry. The past several years has seen an over-stocked inventory of single family residential lots that need to be liquidated before any positive movement in the housing industry can be expected. As lots are sold, construction will necessarily follow. South Yuma County has seen a strong rebound; however, the rest of Yuma County has been more than sluggish. The Countywide absorption rate for existing subdivision lots remains at approximately 50%.

The median sales price for single family homes in Yuma County has continued to steadily increase and Yuma County is nearing a point where compression in net assessed values will reverse course. The next fiscal year, however, will again be one where property tax rates will have to be adjusted upward in order to collect the same levy.

While the unemployment rate in Yuma County remains at shockingly high levels, job recovery following the recession is nearing 80% in Arizona as a whole. That progress is qualified, however, by the fact that only 8% of the construction jobs lost have been recovered. Also, the 80% job recovery is simply a measure of where Yuma County was in 2007, prior to the recession. This means that 8 years of potential job growth has been lost in the process.

Sales tax revenues have remained stable and close to projections for the current fiscal year (2% growth for local sales tax and 2.5% growth for state shared sales tax). With this stability, Yuma County's budget team is confident in continuing to project near this same rate of growth. Because the Jail District and Public Health Services District are at least partially funded with local sales tax revenue, this trend will keep those funds stable as well.

Yuma County bankruptcies saw a slight increase this past fiscal year, but have largely leveled off from recessionary numbers. This illustrates the fact that our residents are more capable of managing their household incomes and consumer debt. Similarly, the number of mortgage foreclosures continued to decline during the same time period which means that more Yuma County homeowners are able to keep their homes. Both of these factors signal a stabilized local economy.

The overall outlook for Yuma County's economy is positive. New strategies are being considered in support of economic development activities to attract prospective employers to Yuma County as well as to retain the ones that we have. Our agriculture industry continues to thrive and enjoyed a very productive winter growing season this fiscal year. The military presence is ever growing and consolidation of defense resources are continuing to be redirected to Yuma's bases.

Compensation and Benefits

Recognizing the hard work, dedication and patience of Yuma County employees is a primary goal in developing every Adopted Budget. Of course, the ability does not always exist to program any type of compensation adjustment into the budget during challenging economic times. However, it is critical to understand the impact that inflation has on the ability of Yuma County employees to continue meeting their own personal financial obligations. While a pay for performance increase is not feasible for the coming fiscal year, this Adopted Budget does include an adjustment of one percent (1%) for employee's whose annual salary is more than \$60,000 and \$600 for employee's whose annual salary is \$60,000 or less. This adjustment does not apply to probationary employees, temporary employees nor elected officials.



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Last fiscal year, we took an approach which asked employees to shoulder a slightly higher percentage of the burden for increased premium rates to the County's health benefits plan. Once again, the program costs mandate that the premium rates increase over twelve percent (12%) for the coming fiscal year. Employees will again be asked to take on a higher percentage of these increases in comparison to the historical allocation. In spite of this shift, Yuma County continues to provide one of the best and most affordable health care plans in Yuma County.

The reclassification of employees who have been asked to perform duties exceeding those called for in their existing job descriptions have been adopted. There were eleven (11) County requests submitted and reviewed by Human Resources Department. Of those, ten (10) were recommended to, and approved by, the County Administrator. One (1) request covered by the Judicial Merit System for classification or title change was 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.

Personnel

In the General Fund, a total of 18.658 new positions were requested for Fiscal Year 2015/2016. Additionally, ongoing and increasing shortfalls for grant funded positions in the County Attorney's Office, Superior Court and Public Defender's Office related to State Aid to Indigent Defense (Fill the Gap) are requested this year. A net decrease of 1.580 full time employee positions was Adopted. Only the Fill the Gap shortfalls were adopted as funding transfers to maintain those critical positions.

For special revenue funds, which includes all special taxing districts, grant and fee funded programs, a net decrease of 2.920 positions was cumulatively requested by those departments and offices. This does not include a recurring request for additional staffing of 1.5 full time equivalent positions for the University of Arizona Cooperative Extension program. A net increase of .585 was adopted.

In all, a net total of 15.738 positions were requested by all departments and offices combined. A net decrease of .995 positions was adopted.

We will continue in Fiscal Year 2015/2016 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. With the aforementioned reduction in the programmed personnel reversion as a revenue source, the importance of the vacancy review process will be magnified in the coming fiscal year.

Capital Improvements

Although numerous needs were identified by County staff for new General Fund capital projects, there is not an ability to program any new appropriation into the Capital Improvement Program (CIP) for Fiscal Year 2015/2016. There is a modest carry forward amount left in the CIP account from the current fiscal year and those will be the only resources budgeted for use on new or ongoing projects.

In all, five (5) existing or new General Fund projects are included for funding in Fiscal Year 2015/2016, as follows:

1. Administration Annex
2. Misc. General Services Construction (revolving)
3. County Cemetery
4. Budget Preparation Software
5. Juvenile Court Security Camera Upgrade



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The renovation of the Administration Annex has reached the conclusion of the design phase and a bid for construction will be forthcoming prior to the start of Fiscal Year 2015/2016. Funding for that project was secured through a pledged revenue financing and it is hoped that the initial phase of the renovation will accommodate the Recorder's Office, Treasurer's Office and County Elections.

Miscellaneous projects are planned on a priority basis from the General Services Department each year. Although small in scope, these projects routinely extend the life of existing facilities and equipment thereby saving Yuma County from the unnecessary expense of replacement costs. This project fund will be slightly reduced for the coming fiscal year, but it is imperative to program these resources as an investment against future expenditures.

The County Cemetery project has changed in its scope. The original plan was to develop a traditional cemetery on a forty (40) acre tract of land. The Public Fiduciary's cremation only policy which has received overwhelming approval has allowed for a significant change in plans. A columbarium (memorial wall) concept will now be developed and situated on the property adjacent to the County Public Works facility.

The lack of future support for the existing budget preparation software demands that resources be provided to acquire a replacement. As this is a program utilized by all funds Countywide, it is likely that reconciliation from various user funds will occur to the General Fund during the course of the procurement.

Finally, in keeping with the commitment from the Board of Supervisors to provide the safest environment possible for juvenile offenders and the staff that protect them, additional upgrades to the facility's security equipment are included in the Adopted Budget.

Closing

Adapting to changing circumstances is a continuing function of any government agency. Decisions that are made beyond our control make it more challenging to adapt, but also provide opportunities to reflect and improve. Although we need to be aware of negative actions and fight hard for our own independence, we cannot dwell on them to the point of affecting our own perseverance.

Yuma County's Budget Review Team was asked to assume a higher level of responsibility for the preparation of this Adopted Budget independent of the County Administrator's participation. The group demonstrated a level of excellence in their performance that reflects a high level of competence in which we should take great pride. Yuma County is fortunate to have dedicated public servants who take their responsibilities very seriously.

Yuma County residents will have a unique opportunity during the course of the coming fiscal year to participate at levels never before seen in our community. The development of a plan and its policies to identify outcomes that maximize the use of our limited resources should be a community effort. I encourage all Yuma County residents to get involved and make a difference in your community. This is your budget and you should take an interest in how it relates to your own expectations.

Respectfully,

Robert L. Pickels, Jr.
County Administrator