

Special Meeting Minutes
Tuesday, December 08, 2009
Meeting Scheduled Start Time: 9:00 AM

BOARD OF SUPERVISORS
Maricopa County, Arizona
(and the Boards of Directors of the Flood Control
District, Library District, Stadium District, Improvement
Districts, and/or Board of Deposit)



"The mission of Maricopa County is to provide regional leadership and fiscally responsible, necessary public services to its residents so they can enjoy living in healthy and safe communities."

Board Members

Don Stapley, District 2, Chairman
Fulton Brock, District 1
Andrew Kunasek, District 3
Max Wilson, District 4
Mary Rose Wilcox, District 5

County Manager

David Smith

Clerk of the Board

Fran McCarroll

Meeting Location

Supervisors' Conference Room
301 W. Jefferson - 10th Floor
Phoenix, AZ 85003

BOARD OF SUPERVISORS

The Board of Supervisors of Maricopa County, Phoenix, Arizona, convened in Special Session at 9:00 AM on Tuesday, December 08, 2009, in the Board of Supervisors Conference Room, 301 W. Jefferson, Phoenix, Arizona, with the following members present: Don Stapley, Chairman, District 2; Fulton Brock, District 1; Andrew Kunasek, District 3 (entered late); Max Wilson, District 4. Absent: Mary Rose Wilcox, District 5. Also present: Fran McCarroll, Clerk of the Board; Shirley Million, Minutes Coordinator; David Smith, County Manager; and Paul Golab, to the Board.

PRESENTATION AND DISCUSSION OF STRATEGIC ISSUES AND DEVELOPMENT OF AN UPDATE TO THE STRATEGIC PLAN

Presentation and discussion of strategic issues facing Maricopa County for the next five years, and development of a future update to the Maricopa County Strategic Plan. (C-06-10-220-P-00)

Presenters will include:

- David Smith, County Manager: Strategic issue statements developed by participants at the November 20 Management Team Retreat, and continued discussion of the process for updating the plan.
- Office of Management and Budget: County Five-Year Financial Forecast

David Smith opened the discussion to plan the strategic issues for the coming five-year period according to resources that are currently known, and with analysis of current information. He said the recent Management Retreat focused on this and the 60-65 attendees commented freely on their perception of the top issues confronting Maricopa County. The commonality of their ideas are included in this report to the Board.

~ Supervisor Kunasek entered the meeting ~

The update will focus on the following major external trends, something David Smith said he often privately refers to as "threat analysis" with regards to possible upcoming issues.

The Declining Economy and Deepening State Budget Crisis
The Increasing Need for Social Services
The Changing Maricopa County Demographics
Rising Costs in an Environment of Flattening Revenue

These trends could lower customer satisfaction and force services in public safety and health and human services to decrease along with reduced availability of justice services because of backlogs and delays in the courts.

Mr. Smith spoke of areas of personal economic stresses that many County residents are experiencing during this decline. There has been so much economic turmoil it has produced a lower appetite for risk. Citizens having received so many unexpected hits from different directions, whether from Wall Street, banks, upside down mortgages, job loss, etc., have become conditioned to put capital in play only when the risk quotient is very low. He believes this is the reason banks are paying interest as low as 1% - saying they just don't have to pay more because people will leave their money alone even at such low interest for safety. Businessmen are not willing to invest in new or expanded business ventures and this eliminates or reduces job creation. The economy has traumatized risk-taking with respect to capital. He felt the slow recovery is really attributable to the slow recovery of confidence. Growing the economy is tied to psychological factors that are difficult to control. Sales tax revenue may continue to decline or remain stagnant and property values will expand to former levels slowly. Thus, continuing deterioration of public infrastructure can be expected.

Mr. Smith said the State budget crisis is affecting local government and citizen services throughout the State. Maricopa County has already given \$60 million in "contributions" to State government and Mr. Smith said he expects this to be about half of what will eventually be called for. The County will have to deal with the reduction in resources from the State; produce a balanced budget; and still meet customer demands and the various needs of mandated and non-mandated functions of County government. He noted that decisions made by the Board must be considered very carefully in light of this variable.

In response to a question regarding County reorganization efforts, Mr. Smith replied that reorganizing how the County does business is always a legitimate management challenge and an item to bring before the Board for consideration. He said there are only four or five areas in County government that can actually be taken to zero and do nothing, i.e., human services, parks and recreation, economic development and the homeless campus. He added that this could be done because all of those areas are "choices of the Board." Today's agenda does not eliminate anything, but elimination could always be done through Board action if deemed necessary to reduce costs. He said that for years the Board has found ways to cope with "what is" and he felt that, "while next year might be more difficult, if it is, we'll just respond to that."

Mr. Smith discussed other changing demographics, many of which were discussed by Elliott Pollack and Dr. Lattie Coor at the previous planning meeting. He listed some of these as, the growing number of non-English speaking residents; more new customers who have never before accessed County services, and more young voters, fewer poll workers and an increasing demand for alternative voting methods.

With regards to rising costs, Mr. Smith addressed what he called, "Auto-pilot spending" as the bane of government. He added that so far Maricopa County has not been guilty of auto-pilot spending and has been "creative" in dealing with the many

state mandates. Where the County delivers actual services (criminal justice and ICJIS) measures have been taken to cope with high demand and limited resources without resorting to auto-pilot spending.

Mr. Smith commented on several other external trends, including increasing litigation costs; declining trust in government and demands for more transparency; increasing desire for harsher criminal penalties; increasing air and water pollution; aging County vehicles and the decrease in traditional communication outlets.

Mr. Smith reported on the “next steps” that were discussed at the retreat, calling the ideas challenging but achievable. These included identifying, analyzing and validating strategic issues, developing measurements and tracking indicators to finalize a strategic communications plan.

Sandi Wilson, Deputy County Manager, and Chris Bradley, Deputy Budget Director, reported on the projected financial forecast for the next five years. Ms. Wilson said the projected forecast is again built on their working partnership with Elliott Pollack, having taken his pessimistic forecast and adding 2% to it. The County is barely meeting budget today. Ms. Wilson added that she felt very nervous about some of Pollack’s growth projections in the pessimistic forecast and said the forecast for the County reflects these concerns. She discussed the forecast assumptions given in her handout and said the forecast did not include any additional financial donations to the State, but this, as always, is a major concern.

Chris Bradley said that sales, vehicle and jail tax collections are expected to bottom out in 2010, experiencing a slow recovery to hopefully recover by 2014 or 2015.

Supervisor Brock asked if expectations were for the sales tax recovery to maintain itself or if it could take another dip in 2015. Mr. Bradley said in recessions since 1980 in Arizona sales tax revenue did not plunge as it has recently, but reflected depressed spending by remaining static, without any growth or movement. He doubted if there had been a similar plunge since the great depression in 1929.

Sandi Wilson said the assessed valuations also show that since 1980 there may have been periods of slow or no growth but the actual declines in assessed property values experienced recently is unprecedented.

Supervisors Brock and Kunasek asked to see earlier sales and vehicle license tax (VLT) revenue information that OMB has on record, believing that studying historical growth and decline statistics would be beneficial to hopefully eliminate the wild swings that have been experienced.

Supervisor Kunasek noted the low populations for adult and juvenile inmates and also wished to study possible historical correlations in comparisons with earlier financial data. Supervisors Kunasek and Brock both referenced a CSA meeting when then Governor Napolitano’s budget directors were explaining their escalating spending policies while Maricopa County was cutting back spending. The State is now trillions of dollars in debt. Maricopa County’s budget remains in the black.

In discussing assessed property values, Mr. Bradley explained that there are statutory regulations which limit a governing body to only a 2% increase in the current levy. Historically, the Board has declined this increase and has, instead, decreased the percentage to ease the burden on the taxpayer. However, with assessments lowering as properties depreciate and new construction plummets, the board may face more

difficult decisions this year.

Supervisor Brock noted the dramatic decreases charted for 2011 and 2012 and asked what is projected to happen in 2012. Mr. Bradley replied that if the property tax rate is left at the current level the County could expect to take a 20% reduction in property tax revenue in 2012, which would be a decrease of approximately \$80 million for the tax year. If the rate continues at the current level, a revenue cut of approximately \$150 million is projected by year 2014. Ms. Wilson said the assumption in the forecast they are presenting is to keep the levy flat, not the rate. The rate would increase as the value of the property decreases. Discussion ensued to help explain the nuances of property assessment and taxation.

David Smith said the chart shows the shrinking value of the property tax base and to just support the budget at existing levels the rate would have to go up. There are options for the Board to choose from on this. He said the school districts and cities may also look to the property tax base to seek relief, which would have multiple jurisdictions raising property tax rates and this would hit the taxpayer hard and put additional pressure on the system. Ms. Wilson gave the different projected amounts in collected revenue during the next five years if the tax rate is kept level and if taken to the maximum levy allowed by statute.

Mr. Bradley explained the charts on jail population; juvenile detention population; structural balance in the General Fund; structural balance in the Detention Fund; the net recurring revenue in the Transportation Fund; and the chart on fiscal conditions measured by on-going revenue vs. spending. Ms. Wilson said the State is not close to a structurally balanced budget but instead they are continuing to resort to “one-time-solutions” and this has added to their deep cash deficits.

Supervisor Brock said that the State is looking at hitting a \$20 billion plus deficit in the next three to five years. The State’s credit rating could drop and many experts say that Arizona will be worse off than California. Experts also say there is a small window of opportunity for Arizona that is now open if the legislature will act.

Supervisor Brock explained autonomy protections available for jurisdictions having Charter Government – such as cities already have – enabling them a broader spectrum of options regarding taxation and services. Maricopa County is, instead, a political subdivision of the State of Arizona and does not have the same flexibility.

Supervisor Kunasek said a charter structure could insulate the County, “But if the State goes down everyone goes down.” He addressed the inaction of the legislature as shocking in their refusal to recognize the seriousness of the State’s financial problems.

Supervisor Brock said unlike Maricopa County, the cities and towns are somewhat protected from the State’s financial demands. He fears the possibility of the State going bankrupt and pulling Maricopa County down into bankruptcy as the State tries to save itself. He explained that Maricopa County has been run in such a fiscally-balanced way that it remains in the black, while the State has exercised little or no fiscal responsibility. He said the continuing decline will require serious recalculation of the services Maricopa County can provide to its citizens in the future.

Supervisor Stapley commented on government bankruptcy, saying few had actually filed for this, Orange County California being one of those few in the 1990’s. He said it was difficult to see Maricopa County having to file for bankruptcy because Maricopa

County has little or no debt, unlike many counties, cities and states in the nation. Maricopa County has kept to its policy of pay-as-you-go. He acknowledged the County has paid the State \$60 million over the past two years after making massive cuts in every department, and the County remains in "okay" shape. "But the County will be in trouble if the State continues to look to us to shift costs and divert revenues from us to them. It is the County's biggest challenge." The message must get to the State's leaders and he suggested sending a written missive to the Governor and legislative leaders giving the County's stance. Governor Brewer understands this but that does not hold for all the State's leaders. Mr. Stapley felt the State must accept responsibility and face reality to grow themselves out of this fiscal disaster. He said the State will have to borrow more money, decrease expenditures and services and increase revenues to save itself.

Chairman Wilson agreed and said that taking \$60 million from Maricopa County and letting the State's deficit grow worse is not fair to this County's taxpayers and is a double taxation to Maricopa County taxpayers.

Sandi Wilson said it will be a challenge to maintain the County's structural balance even without State money shifts but she believes it can be done, as it always has been done. Expenditures will have to continue to be restrained because revenues will remain so weak.

~ The Chairman declared a break at 10:45 a.m. ~

~ The Chairman reconvened the meeting at 11:00 a.m. ~

Dr. England, Public Health, reported on the H1N1 influenza pandemic as the second wave declines and said a third wave would not be unusual. Distribution of vaccine presented a problem and only one public clinic has been held but more are scheduled in the near future for at-risk groups.

At this point the meeting opened to consideration and discussion on choosing the strategic priorities for the next five years and dialogs on many topics were introduced. One of the more compelling was government reform with Maricopa County partnering with other counties and the cities and towns to try to correct well known deficiencies in the State government policies and laws.

Supervisor Stapley said that county supervisors in California are considering calling a Constitutional Convention to address the fundamental structural deficiencies of their state government. He said they have had one meeting where disparate interest groups came together. He wondered about a call to all jurisdictions in Arizona from this Board to consider the Arizona State Constitution and how the revenue and tax laws are drafted. He felt it would be timely saying "I think they all know it is broken." He thought "if the call is loud enough" they might respond, adding that perhaps this could become a new strategic priority.

Supervisor Stapley also recommended increasing the County's promotion of alternative energy, primarily solar and wind. He felt these are economic generators for the future. He felt Maricopa County has vast amounts of vacant land in the Flood Control District that could serve a dual purpose in the utilization of solar energy, partnering with private parties and the utility companies. This would enlarge the scope of the energy package the County is already working on and work towards an energy level that is suitable for future needs.

Supervisor Brock said one of the largest expenses of any government is health care and there are many new subscribers every month – recently going from 25% to 100% of the poverty level on ACCCHS. That expense is formula-driven and it is hugely expensive. He asked if this should not have been sunsetted. He said that everyone thinks they deserve salary increases and free healthcare, adding that the two things the public indicated are priorities are free healthcare and trails, parks and recreation. He thought health and wellness prevention initiatives for employees should be increased.

Discussion on prioritizing strategic items was entered into by the following managers who were in the audience: John Hauskins, Transportation Department, Joy Rich, Assistant County Manager; Trish Georgoff, Workforce Management and Steve Wetzal, Office of Enterprise Technology.

David Smith said the County not only needs a five-year capital infrastructure plan that includes our buildings, roads, bridges, and flood control projects but one that also includes technology and communication.

Mr. Smith concluded the meeting by explaining that staff would take the information from these two days of meetings and bring back to the Board a proposed new strategic plan.

MEETING ADJOURNED

There being no further business to come before the Board, the meeting was adjourned.

Max W. Wilson, Chairman of the Board

ATTEST:

Fran McCarroll, Clerk of the Board