INFORMAL SESSION
February 5, 2007

The Board of Supervisors of Maricopa County Arizona convened in Informal Session at 10:00 a.m., February 5, 2007, in the Supervisors' Conference Room, 301 W. Jefferson, Phoenix, Arizona, with the following members present: Fulton Brock, Chairman, District 1; Andrew Kunasek, Vice Chairman, District 3; Don Stapley, District 2; Max W. Wilson, District 4, Mary Rose Wilcox, District 5 (entered late). Also present: Fran McCarroll, Clerk of the Board; Shirley Million, Minutes Coordinator; Sandi Wilson, Deputy County Manager; Chris Keller, Chief Counsel, Civil Division and Victoria Mangiapane, Deputy County Attorney. Votes of the Members will be recorded as follows: aye-nay-absent-abstain.

ECONOMIC FORECAST FOR MARICOPA COUNTY

Update of the national and local economic factors that impact Maricopa County's revenues. (C4907024800) (ADM1825)
Elliot Pollack, Elliot Pollack & Co.

Elliot Pollack explained that he would report on the National and State Economies first and then on revenue projections for Maricopa County.

National Economy Negatives

- Slowing housing market
- Consumer spending is slowing
- Possible inflation as an issue by the end of the year

National Economy Positives

- Employment continues high, up 1.4% last year with similar expectations in 2007
- Businesses operating 'lean and mean' and on a spending spree
- Increase in exports because of the cheaper dollar

Mr. Pollack explained, "We are at the point in the cycle that is subject to unexpected shocks" such as oil price escalation or a terrorist event. He felt that absent any "shock" the economy would be up 2.4% this year and in good shape throughout 2007. Others have predicted a one in four chance of a recession, a prediction he felt was pessimistic. Real income is growing between 3% to 4%, retail sales are also up, with the exception of auto sales, employment continues to grow and the unemployment median is fewer than eight weeks.

Mr. Pollack's biggest concern is residential real estate investment as a percent of Gross Domestic Product (GDP), which in 2005 reached the highest peak since returning World War II G.I.'s started buying homes in the late 1940's. He cautioned that once this indicator starts to decline it usually goes way below the mean before it recovers. When fewer houses are purchased an impact is also felt in sales of home improvement items, furniture, appliances, building materials, etc. He added that you have to look at completions, not starts. Starts have already fallen off but there is a pipeline of approximately nine months and completions should start falling later this year and that's when the effect on consumer spending will be seen. Mortgage equity withdrawals, homeowner disposable income being put into their homes, has completely reversed from the high of over 6.5% to a norm of about 1%. He said that 2007 should be a weak year for consumer real estate spending. However, business spending is growing by 6% to 7%, and this should sustain the economy during 2007. He added that foreigners are holding "more and more of the U.S. debt."

~ Supervisor Wilcox entered the meeting ~

Arizona was classed by some as the fastest growing state in the union in 2006, but Mr. Pollack felt these numbers may be revised. In terms of job growth Arizona was second, just under Utah. Over the past 10 years in Arizona, Phoenix has had more than 2/3 of the population growth and 78% of all new jobs created. Maricopa County created 95,000 new jobs last year and will create another 77,000 jobs in 2007. He said that Arizona's job growth in 2005 and 2006 was unprecedented.

Mr. Pollack explained that it is normal for job growth to peak well before a recession, the most recent peak took place in 2005. He believed the next recession will be "sometime after 2008." He said that employment in the U.S. in 2006 grew by 1.4% and in Arizona it grew by 4.8%. One out of every 71 people employed in the U.S. works in the Greater Phoenix area, and one out of every 21 jobs created in the U.S. last year was created in Greater Phoenix. These jobs were in all areas of employment – construction, trade, services, financial activities, etc. During the four decades from 1960 to 2000 Arizona grew approximately 2.5 times the national average in terms of employment. Since 2000 Arizona is growing at 6.7 times the national average. He said, "By any standard we are doing exceptionally well."

With regards to housing, Mr. Pollack said houses were overbuilt in 2004-2005 nationally and this has thrust the market into a national inventory correction. In Maricopa County it is taking up to 90 days to sell a house now whereas houses were selling in a couple of weeks in 2005-06. He said there is currently an eight month "supply" (normally it is four to six months) and added that as a result, housing prices are 5% off of the peak of 19 months ago. Inventory pressure will continue to lower home prices for the rest of this year. He reassured the Board that this is transitory and caused by the continued rapid growth. He estimated 20,000 excess homes will have to be absorbed and said the worse housing is in 2007 the quicker the problem will be over. The commercial and institutional markets are still strong, as are closings. Mr. Pollack also discussed and compared housing affordability in different areas of the country with Phoenix and Maricopa County and indicated that Phoenix will no longer be the least expensive major market west of the Mississippi. Thirty percent of a family's income should be spent on their home purchase. Projections of new housing needs for the next decade range from 530,000 to 585,000 single and multi-family units.

In commercial real estate, vacancy rates of condos and office space are low, mostly because of absorption and the conversions that have taken place. The office space market looks "very strong this year and next." Industrial space vacancy rates have never been lower and this should be strong in 2007. He said that commercial retail follows the housing cycle and is still building - there are ten million square feet under construction in greater Phoenix. This is a result of the surplus houses of homes built earlier. Mr. Pollack summarized the real estate market as follows:

- Housing market is weakening and commercial market is strong
- Population growth remains strong
- Employment growth will remain positive although down some from 2006
- Most other sectors expanding
- Retail sales growth to slow this year

With regards to revenue: Mr. Pollack said the retail sales forecast for 2007 is down to 6.8% from 8.8 in 2006. Sales slowed in 2006 after the huge boom in 2005. State shared sales taxes have also come off of an historic high of 14% during the fall of 2005. This revenue has continued down to reach a likely 6.8% for this fiscal year and dropping to 5% for FY 2008. Maricopa County should "most likely" receive $4.89 million in state shared sales tax revenue in 2007 with a pessimistic view totaling $4.83 million. The $4.89

million is down $2.9 million from the amount budgeted for 2007. Vehicle License Taxes should be "mediocre" to match the projected auto sales picture for the next couple of years, however, this is still slightly over the budgeted amount.

~ Supervisor Wilcox left the meeting ~

Discussion and requests for clarification ensued on several topics, including transportation problems now and in the future, having double the population of today.

FINANCIAL STATUS OF THE BUDGET AND RISK FACTORS

Presentation regarding the financial status of the FY 2006-07 budget and risk factors associated with the development of the FY 2007-08 budget. (C4907025800) (ADM1801)
Sandi Wilson, Deputy County Manager
LeeAnn Bohn, Budget Administration, OMB
Chris Bradley, Deputy Budget Director
Brian Hushek, Deputy Budget Director

Sandi Wilson discussed the impact the revised forecast will have on the County's budget for this year and in budget preparation for next year. She said the current budget was drawn according to Mr. Pollack's pessimistic forecast a year ago and the impact of the significant slowdown that has occurred since that forecast has therefore been lessened. Actual revenues will be under-budget by approximately $9 million. Lower than anticipated revenue forecasts for the 2007-08 budget means that there will be few funds for new initiatives. She said that while revenue growth is down population growth will increase and that will continue to drive our service demand levels up. She warned, "there will be a need to tighten our belts as we move forward."

Chris Bradley reported that the trend for sales tax revenues is slowing and the big funding issue will be felt in FY 2007-08. The state shared sales tax will have $16 million less in the revenue stream in 2007-08, even using the pessimistic figures, which is significant in balancing the budget. The trend of growth in the state shared sales tax is down and that is a concern. The lower vehicle license tax revenue means another $4.5 million reduction in the trend line for '07-08.

Brian Hushek reported on recommendations for these shortages that will be addressed in the action items on today's agendas for the County and the Flood, Library and Stadium Districts. Another action item – to freeze contingency funds for use only in emergency situations – will be brought before the Board in two weeks. In addition, if it becomes necessary, a reallocation of CIP funds may be requested.

~ Supervisor Wilcox returned to the meeting ~

Supervisor Kunasek raised the question of the projected state personal income tax revenue for 2006. The new State budget has not been released but Mr. Bradley pointed out that this tax has little impact on the County as it is the shared sales tax total that provides revenue to Maricopa County. Mr. Kunasek commented that if the State's revenue is down they often turn to Maricopa County for supplementation and that can have a huge impact on the County's budget.

Sandi Wilson added to her earlier comments that the County is now at the maximum property tax levy. She said the February 10th valuation report has not yet been received from the Assessor, but that will impact the future budget as well. The Board will be kept abreast of new information as it becomes available, but the 2007-08 budget talks will accelerate in coming weeks.

Supervisor Stapley asked for clarification on the recommendation for “no results initiatives” to be approved, when in the expanded text it speaks more to curtailment of this spending according to criteria and prior Board approval.

~ Supervisor Wilcox left the meeting ~

Ms. Wilson replied that any item of a critical nature would be considered but departments should first try to devise ways to achieve the initiative within their own budget. She added that OMB would obviously look at any initiative that would offset its cost by increasing revenues.

Supervisor Wilson asked for another update on this subject in July and said he would like it to include any impact of revenues from the continuing population growth on this economic projection.

APPROPRIATION AND EXPENDITURE ADJUSTMENTS

Motion was made by Supervisor Stapley, seconded by Supervisor Wilson, and unanimously carried (4-0-1) to authorize an appropriation adjustment reducing the FY 2006-07 General Fund Revenue budget in the amount of $9,635,961 by reducing state shared sales tax by $8,847,455 and state shared vehicle license tax by $788,506.

Also authorize a corresponding adjustment reducing FY 2006-07 expenditures in General Government (470) General Fund (100) Unreserved Contingency (4711) by the same amount. This change is needed for administrative reasons in order to ensure a structurally balanced budget due to a revised revenue forecast downward. This adjustment does not alter the duly adopted budget for purposes of A.R.S. §42-17105, but rather reflects internal structural adjustments necessitated by forecast reduction in revenues. (C4907026800) (ADM1801-003)

AMEND THE BUDGETING FOR RESULTS GUIDELINES AND PRIORITIES

Motion was made by Supervisor Stapley, seconded by Supervisor Wilson, and unanimously carried (4-0-1) to amend the Budgeting for Results Guidelines and Priorities for FY 2007-08 previously approved on December 4, 2006. Due to recent revisions to the County’s revenue projections, it will be necessary to amend the FY 2007-08 Budget Guidelines and Priorities adopted by the Board of Supervisors on December 4, 2006. Though the adopted version allowed departments to submit requests for additional funding, baseline projections incorporating the revised revenue estimates indicate that additional funding may not be available to support these requests. As such, a revision to the guidelines is in order. (4907017800) (C4907027800) (ADM1826)

MARICOPA COUNTY
BUDGETING FOR RESULTS GUIDELINES AND PRIORITIES
FOR FY 2007-08
Approved by the Board of Supervisors on December 4, 2006
Amended for Consideration by the Board of Supervisors on February 5, 2007

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The purpose of these guidelines and priorities is to provide direction from the Board of Supervisors to the Office of Management and Budget and all departments so that they can develop a sustainable, structurally-balanced budget that achieves, within available resources, the County's mission and strategic goals as set forth in the 2005-10 Strategic Plan.

Property Taxes:
The budget will continue to advance the strategic goal of reducing property tax rates by controlling expenditure increases. The targeted overall increase in operating expenditures should be less than the rate of increase allowed by the County's constitutional expenditure limitation, which is equal to the combined rate of increase in population and inflation (as measured by the GDP Price Deflator). The allowable rate of increase is estimated at 7.0% for FY 2007-08. To achieve this target, OMB is directed to fulfill the County strategic goal to identify non-essential programs and recommend their elimination.

Employee Compensation:
The budget should continue to support progress toward achieving the strategic goal of competitive total compensation that results in improved customer service. The Office of Management and Budget is therefore directed to allocate funding for employee salary and benefit increases, including market and performance-based salary adjustments.

1. Department base budgets will include allocations for performance-based salary adjustments averaging 3.5% (subject to available funding) for employees eligible under the performance-based salary adjustment plan for the upcoming fiscal year. The budgeted rate for performance-based salary adjustments may not be increased without direction from the Board of Supervisors. The Employee Compensation Division of the Office of Management & Budget is directed to develop the Performance-Based Salary Advancement Plan consistent with the previous year and present it to the Board of Supervisors for review and approval.

2. To the extent allowed by available funds, the budget will include reserves in Contingency to implement ongoing and pending market compensation studies. Funding for market adjustments will be prioritized to address only the most critical turnover, retention and recruitment issues that have a significant impact on critical public services. Departments may not include requests for new market compensation funding in their budget requests

Base Budget Targets:
Base budgets for all departments and funds will be prepared within target amounts equal to their current budgets plus authorized adjustments. The Office of Management and Budget is directed to adjust budget targets for the following:

1. Annualized cost of FY 2006-07 approved Results Initiatives;

2. Annualized impact of FY 2006-07 mid-year appropriation adjustments;

3. Annualized impact of other items (including intergovernmental agreements) that were approved by the Board of Supervisors, so long as the impact was disclosed at the time of Board approval.

4. Items required by State law, such as judges' and elected officials' salary increases and mandated contributions to AHCCCS, ALTCS and other programs.

5. Estimated cost of performance-based salary adjustments for FY 2007-08 averaging 3.5%, as well as estimated employee benefit increases.

6. Other technical adjustments as required.

<u>All departments must submit their base expenditure budget requests within their budget targets.</u> If justified by revenue projections, base revenue budget requests may exceed revenue targets. Revenue targets for non-General Fund budgets will include an adjustment as necessary to maintain structural balance (recurring revenues equal to or greater than recurring expenditures) within the fund. If the revenue target cannot be met, departments must reduce base expenditures and base revenue by an amount sufficient to restore structural balance.

Base Budget Reductions
Lower revenue growth will challenge Maricopa County to continue to provide results for the people it serves. In order to meet this challenge, all departments are urged to work with the Office of Management and Budget to identify budget savings through greater efficiency and reduction or elimination of services that have little or no impact on results.

Requests for Additional Funding:
Funding for new initiatives will be extremely limited in FY 2007-08. Results Initiative Requests will not be considered unless directed by the Board of Supervisors.

Capital Improvement Program
The Office of Management and Budget is directed to work with departments to develop an updated Capital Improvement Program and Capital Projects budget for FY 2007-08 that meets the County strategic goal to *develop, identify funding, and begin implementing a long-range plan for addressing the County's capital infrastructure needs in a manner consistent with the County's interests in strengthening its financial position, and enhances and expands conservation programs in order to reduce energy and water consumption.* Requests should be supported by documented return-on-investment.

The capital improvement program should be financed on a <u>pay-as-you-go</u> basis through a combination of operating revenues and non-recurring resources. For General Fund capital projects, OMB is directed to develop a capital projects budget to carry out the projects prioritized and approved by the Board of Supervisors within the funding limit adopted on October 4, 2006. OMB is directed to identify as much additional recurring and non-recurring funding as possible within the General Fund to increase the CIP funding limit.

<u>AMENDMENT FOR LAVEEN AREA CONVEYANCE CHANNEL</u>

Motion was made by Supervisor Stapley, seconded by Supervisor Kunasek, and unanimously carried (4-0-1) to approve Amendment No. 2 to the Intergovernmental Agreement (IGA) Amendment FCD2000A021B for the Laveen Area Conveyance Channel (LACC) from 43rd Avenue to Salt River and 43rd Avenue/Southern Avenue Detention Basin with Maricopa County Department of Transportation (MCDOT), the Flood Control District of Maricopa County (FCD), the City of Phoenix, and the Salt River Project (SRP). The original agreement, FCD2000A021, is for cost sharing and design; right-of-way acquisitions and utility relocation; construction and construction management; and operation and maintenance of the project. This amendment allows transfer of ownership and maintenance responsibilities of the 43rd Avenue and Southern Avenue detention basin to the city; and also allows transfer of ownership and maintenance responsibilities to the city for the completed portion of the LACC from Station 43+00 to Station 319+71.95. The district will retain ownership and maintenance responsibilities of the downstream outlet end of the LACC, from Station 13+89.80 to Station 43+00 until outlet improvements have been completed. Following the completion of the outlet improvements the remainder of the LACC will be transferred to the city. This amendment does not impact SRP or MCDOT. The Flood Control District is requesting approval of this IGA from the Board of Directors under agenda item (C6901093202) scheduled for February 5, 2007. (C6403215200) (C6407167200)

Supervisors Kunasek and Brock discussed the ability to continue with the County Trail System throughout this and all future expansion with rights-of-way to maintain the continued escalation of the public trail being built around the County as a priority.

REGIONAL SCHOOL DISTRICT #509 VOUCHERS/WARRANTS

Item: The Board of Supervisors, pursuant to its authority granted in A.R.S. §15-1001, will consider for approval vouchers presented by the County School Superintendent of Maricopa County to draw warrants on the County Treasurer against Maricopa County Regional School District #509 School District funds for necessary expenses against the school district and obligations incurred for value received in services as shown in the Vouchers. (ADM3814-003)

The Board of Supervisors may consider ratifying any Maricopa County Regional School District #509 vouchers and/or warrants approved in accordance with the procedures of A.R.S. §15-321 since the last meeting of the Board of Supervisors. The Board of Supervisors may hear staff reports on the vouchers and warrants being considered. The Vouchers are on file in the Maricopa County's Clerk of the Board's office and are retained in accordance with ASLAPR approved retention schedule. (ADM3814-003)

Motion was made by Supervisor Stapley, seconded by Supervisor Kunasek and unanimously carried (4-0-1) regarding action on the following vouchers, as follows:

Approve Voucher #259	$4,026.12
Ratify Voucher #216	$283,994.48
Ratify Voucher #258	$258.36
Ratify Voucher #6022	$20,363.34
Ratify Voucher #6023	$53,096.84
Ratify Voucher #6024	$71,989.58

There were no staff updates to the Board of Supervisors on regional school's operations and finances. (ADM3814-005)

~ Supervisor Wilcox returned to the meeting ~

EXECUTIVE SESSION

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Motion was made by Supervisor Stapley, seconded by Supervisor Kunasek, and unanimously carried (5-0) to recess and reconvene in Executive Session in the Tom Sullivan Conference Room to consider items listed on the February 5, 2007, Executive Agenda, pursuant to listed statutory authority, as follows.

LEGAL ADVICE; PENDING OR CONTEMPLATED LITIGATION – ARS §38-431.03(A)(3) and (A)(4)

1. **Compromise Cases,** Barbara Caldwell, Outside Counsel
Dorothy Sanders
Bonnie Lynne Hage-Moldovan
Michael David Garrett

2. **Write-Off Cases,** Barbara Caldwell, Outside Counsel
Sheriff's Uncollectible Accounts

LEGAL ADVICE; PENDING OR CONTEMPLATED LITIGATION; SETTLEMENT DISCUSSIONS CONDUCTED IN ORDER TO AVOID OR RESOLVE LITIGATION – ARS §38-431.03(A)(3) AND (A)(4)

3. **Wilson v. Maricopa County, et al., Claim No. GL5419030293**
Peter Crowley, Risk Manager
Bruce White, Deputy County Attorney
Daniel Struck, Outside Counsel
David Hendershott, Chief Deputy, Sheriff's Office

4. **Claim of Kristen Forsyth**
Peter Crowley, Risk Manager
Bruce White, Deputy County Attorney
Michael Frazelle, Outside Counsel
David Hendershott, Chief Deputy, Sheriff's Office

5. **Mucerino, et al v. Maricopa County, Maricopa Superior Court Cause No. CV2005-011512 (Consolidated with CV2006-005457)**
Eileen Dennis Gilbride, Outside Counsel
Otis Smith, Deputy County Attorney

LEGAL ADVICE; CONTRACTS SUBJECT TO NEGOTIATION – ARS §38-431.03(A)(3) and (A)(4)

6. **Aguila Water Services Franchise**
Lori Pacini, Deputy Clerk of the Board
Kevin Costello, Deputy County Attorney

LEGAL ADVICE; PENDING OR CONTEMPLATED LITIGATION; CONTRACTS SUBJECT TO NEGOTIATION – ARS §38-431.03(A)(3) AND (A)(4)

7. **Advice regarding legal issues and options concerning County Regional School District/Accommodations School funding, financial matters, management issues/Treasurer related management, investment and financial issues.**
Tom Irvine, Outside Counsel
Sandi Wilson, Deputy County Manager

Tom Manos, Chief Financial Officer
Shelby Scharbach, Deputy Chief Financial Officer
Brian Hushek, Deputy Budget Director
LeeAnn Bohn, Budget Manager
Shawn Nau, Health Care Mandates

MEETING ADJOURNED

At the conclusion of discussion on the above items and there being no further business to come before the Board, the meeting was adjourned.

Fulton Brock, Chairman of the Board

ATTEST:

Fran McCarroll, Clerk of the Board