

Tucson Citizen

City, county tighten spending screws

Hiring freezes one of ways to combat revenue losses

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Home sales are in the toilet. Foreclosures abound. Consumers aren't spending. Joblessness is rising. The state economy is in recession.

The drumbeat of bleak Arizona economic news that began last fall continues to pound unabated through the spring.

Across the state, cities and counties have halted hiring in response to falling revenues from property and sales taxes, and development and impact fees. And if that doesn't balance budgets, then layoffs loom for hundreds of government workers.

Pima County and Tucson are trying to hold their budget lines this year by freezes on hiring and spending as they prepare budgets for next fiscal year, which starts July 1.

"I've not seen it this bad since the mid-1970s," Pima County Administrator Chuck Huckelberry, said recently.

"I requested every department to prepare two budgets," Huckelberry said. "What they would cut with 2 percent budget cuts and what they would cut with 5 percent budget cuts."

A final budget won't be adopted until this summer, and a tax levy to support county spending for fiscal 2008-09 won't be imposed until August.

But Huckelberry already is looking at a potential budget that, for the first time in years, will not exceed the previous fiscal year's budget. The current budget was a record \$1.48 billion.

Capital improvement projects will likely see a \$100 million decrease next year, he said. The county budgeted a record \$234.7 million for capital projects in fiscal 2007-08.

Included in that were an unusually large number of projects that were ready to proceed, with the funding available from past bond packages.

This coming fiscal year, some projects slated to proceed may be delayed indefinitely to trim construction, operations and maintenance costs to help offset the bleak economic prognosis.

Some planned projects for the parks department are being considered for "interruption," including work on a Southeast Regional Park/Shooting Range that would trim \$664,000.

About \$200,000 could be saved by delaying work on the Cañada del Oro River Park in Catalina.

Another \$335,000 expense could be delayed by discontinuing work on a Green Valley Performing Arts Center, said Deputy County Administrator John Bernal.

The capital improvements program is just a start. The county has a litany of budget line items that could come up short, depending on how the Legislature chooses to solve its own budget crisis.

The county could lose \$4 million to \$8 million in state gasoline tax revenues for road improvement projects under proposals in the

Legislature. Lawmakers hope to shift that funding to Arizona's general fund to help offset the state's budget crisis, Huckelberry said.

Pima and Maricopa counties may be told to assume more local funding responsibility for any patient population growth in the the Arizona Long Term Care System, as well.

The Legislature also may take money from counties' youth jobs and anti-drug programs, along with forcing counties to pay more for enforcement of new, tougher DUI laws, Huckelberry said.

The precipitous drop in home building during the second half of 2007 also has caused local development tax and fee collections to drop off.

The county Development Services Department is an enterprise fund that pays for itself through development fees for services and permits..

Huckelberry said Tom Burke, director of the Pima County Finance and Risk Management Department, told him in January that if the dismal market continues to limit the numbers of new housing permits, Development Services could face a shortfall of \$5 million to \$9 million through June 2009.

If the hiring freeze doesn't balance the books in Development Services, the county may be forced to eliminate 15 to 20 full-time positions of employees, Huckelberry said.

But job cuts haven't been necessary "so far," he said.

The housing market collapse also has hit revenues the county collects through its development impact fee ordinance.

Development impact fees are charged for new construction that necessitates road improvements or road construction, said Ben Goff, deputy director of the Pima County Transportation Department.

The projected \$8.6 million expected to be collected through this fiscal year

is "less than half" of what was collected in fiscal 2005-06, Goff said. That figure could be lower if the housing slump deepens, he cautioned.

City budget mostly OK

The city is faring better this budget year than are suburban municipalities and the county.

Though the city imposed a hiring and spending freeze last month, in large part because of a \$12 million shortfall in sales tax collections, City Manager Mike Hein said the city should weather the economic downturn better than most because it's not as tightly hitched to the growth wagon.

"Tucson has not historically been as reliant on new growth as some of the surrounding communities," Hein said. "Planned capital project on the short term will not be impacted.

"Stuff that we haven't started might get delayed. Stuff that we have planned for the next five years might be delayed."

Finance Director Jim Cameron said sales tax revenues from December were nearly \$1 million short of projections.

Cameron said the city expected to receive \$54 million in sales tax revenues from the state this fiscal year, but that figure was lowered to \$49 million.

He said the city is looking at how the economy may affect the budget for the next fiscal year, but offered no specifics as to what might be cut to make up for the reduction in tax and fee income.

While the fall in sales tax collections has affected the city budget the most, the slowdown in residential housing also has caused impact fee collections to fall off.

The Parks & Recreation Department, which collects impact fees from residential development only, is coming up about \$400,000 short of what it needs for planned projects this year.

City officials could not say how the deficit would affect expanding the parks system, which includes constructing additions to buildings, purchasing land for new parks and lighting playing fields.

"I don't think the reduction (in home construction) has slowed us down too much because we based the expenditures on what we had at a certain point in time," Parks Director Fred Gray said. "We're just not as progressing as rapidly as we would have had we had the revenue collections there."

But the city's impact fee program is set up as pay-as-you-go, spending just what it collects. And the fund has more money than it plans to spend this year.

As of December, the city had \$15.8 million in impact fees and interest to pay for roads and parks projects. Of that, \$10.4 million has been reserved for upcoming projects.

The city is also positioned to absorb the drop-off in fee collections from home building because commercial construction has remained strong.

Jessie Sanders, deputy director of the Development Services Department, said that revenue from permitting fees has been sufficient, so layoffs are not an issue.

"We're basically breaking even," he said, "and the reason we're breaking even is because we still have some commercial and we still have some residential."

Cities and counties must have their budgets in place by July 1. The Legislature is not expected to pass a budget for next year until May or June, after it solves the shortfall from this year.

2007 calendar year permits by month for new model housing units in unincorporated Pima County:

- January: 112
- February: 107
- March: 161
- April: 180
- May: 150
- June: 118
- July: 185
- August: 106
- September: 76
- October: 78
- November: 51
- December: 45

Photos by VAL CAÑEZ/Tucson Citizen

ADDITIONAL INFORMATION

RESIDENTIAL BUILDING PERMITS BY YEAR

2005 2006 2007 %change

2005-2007

Sahuarita 1,637 1,200 849 -49%

Oro Valley 354 349 337 -.05%

Marana 1,763 796 546 -69%

Tucson 2,497 2,531 1,252 -50%

Pima County 5,000 3,471 1,721 -66%

Total 11,251 8,347 4,705 -62%

Source: Southern Arizona Home Builders Association