

2007 Showcase in Excellence Awards Recipient

Maricopa County Office of Management and Budget – “Modified Pay-as-you-go Capital Financing”



The Maricopa County Downtown Justice Center (*above*) was built using the Pay-as-you-go Capital Financing process.

Company Information:

Highest Ranking Official: Sandi Wilson, Deputy County Manager and Director of Office of Management and Budget

Contact Person: Kirk Jaeger, Managing for Results Consultant, 602.506.7104

Type of work: The Office of Management and Budget is responsible for the preparation, analysis, and recommendation of budgets of all 58 departments within Maricopa County to the Board of Supervisors, including both operational and capital improvement budgets.

Workforce: 26

Testimonial of Value of Arizona State Quality Awards Program

“This was not only an opportunity to review past accomplishments, but it allowed us to learn how to continuously make improvements for our customers, the taxpayers of Maricopa County.”

-Sandi Wilson-
Deputy County Manger

Highlights of Organizational Process:

Results Speak for themselves:

- Using the modified pay-as-you-go approach to fund CIP, Maricopa County has avoided the use of new General Obligation (GO) bond debt since 1986.
- Over a typical 25-year bond period, this allows the County to avoid assessing over \$1,419,000,000 in secondary property taxes. The County has one of the lowest property tax rates in the state and is at its lowest rate in over 25 years
- Maricopa County has achieved an historical and unique position as being the only known large local government operating a successful CIP without the use of GO bond debt.
- Maricopa County has been able to successfully construct \$263 million in existing buildings without the use of additional GO debt service, and make plans for an additional \$608 million of projects that are either under construction or included in the approved budget – all being built without the use of GO bond debt.
- Increased bond ratings of AA+ and an implied AAA, prompting *The Arizona Republic* to write on June 7, 2007, “the stronger bond rating signals the county’s fiscal stability, a tremendous turnaround from a decade ago, and, ultimately, translates into a savings for taxpayers in Maricopa County.”

Key Aspects of the Process:

The specific process improvement addressed with the modified pay-as-you-go process was the development and implementation of a change in policy to shift from relying extensively on General Obligation (GO) Bonds to fund the Capital Improvement Plan (CIP) to a reliance on using a modified pay-as-you-go approach. This change in process included the use of cash reserves and short-term debt instruments. The goal of the CIP portion of the budget process is to ensure that Maricopa County employees have the infrastructure they need to provide services to residents while ensuring that this is done in a fiscally prudent manner consistent with the County's Strategic Plan.

Guidelines and Budget Assumptions

- The Board of Supervisors adopts policy guidelines for budget development.
- Guidelines require that the County budget is *structurally balanced*, meaning that operating revenues are sufficient to cover operating expenditures, including any debt service not covered by reserves.
- To develop budget assumptions, OMB consults an economist to forecast the economic and demographic trends.
- OMB bases its budget assumptions on conservative forecasts of revenues and expenditures expected in the coming year, which ensure a high probability that revenues will exceed expenditures. Budget savings can then support pay-as-you-go financing of capital.
- OMB then develops a schedule and a set of guidelines to help County departments develop their budget requests.

Budget Creation—Projects Analyzed within Budget Constraints and Recommendations Made

- Budget requests, including requests for funding the CIP, are submitted by County departments to OMB. OMB analyzes budget requests, works with the departments, prioritizes department requests for CIP funds, determines the most appropriate funding mechanism according to the County *Reserve and Tax Reduction Policy* and other policies, and develops a recommended allocation of resources for the CIP.
- A key component of the process is to identify appropriate funding sources for the CIP and how it will be financed. The CIP is a plan that identifies projects that will be completed over the following five years.
- Another important part of the process is identifying any future additional operating costs associated with new facilities and infrastructure so that the County can plan funding for them. Major considerations include avoiding the use of secondary property taxes to fund the CIP and minimizing debt financing.
- OMB then recommends a structurally-balanced budget, including the CIP, to the Board of Supervisors at a public meeting. The Board tentatively adopts the budget in May, publishes the Tentative Budget, and then opens a month-long period for the public and stakeholders to ask questions and provide input and feedback.

Capital Infrastructure Projects Funded and Managed

- In June each year, before the beginning of the new fiscal year on July 1, the Board adopts the budget, incorporating any necessary changes, including funding for the CIP.
- With the adoption of the budget, the Office of Management and Budget assists departments in the implementation of the CIP and continuously monitors the fiscal situation and makes recommendations to the Board on CIP changes and adjustments throughout the year.