

CONSERVATION FINANCE FEASIBILITY STUDY : MARCH 2014
(updated April 2014)

PINAL COUNTY, ARIZONA



THE TRUST *for* PUBLIC LAND
LAND FOR PEOPLE



PINAL COUNTY
wide open opportunity

Greg Stanley
County Manager

January 16, 2014

Dee Frankfourth, Associate National Director Conservation Strategies
The Trust for Public Land
901 Fifth Avenue, Suite 1520
Seattle, WA 98164

Dear Ms. Frankfourth:

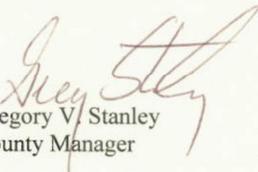
By this letter, Pinal County officially requests technical advice and assistance from your organization in connection with our efforts to develop a program to finance land conservation, open space and trails, and a potential related ballot measure. As part of your advice and assistance, we understand you may provide feasibility research, conduct a public opinion survey, and develop strategies for our consideration.

We are interested not only in the factual information that you can provide to us, but also your organization's opinions and recommendations on public financing mechanisms and measures available to us. Although your submissions will be directed to the attention of Open Space and Trails Director Kent Taylor, we understand that your responses to this request will be for the general use of Pinal County.

This request will continue in effect for any subsequent advice you offer or presentations you submit for the use of the County related to such matters. In addition, we would like to take this opportunity to request that you continue to be available to provide technical advice and assistance in this area and on related matters in the future.

Thank you for your organization's contribution to the work of the Pinal County Board of Supervisors.

Sincerely,


Gregory V. Stanley
County Manager

All photos courtesy of Pinal County

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INTRODUCTION

The Trust for Public Land (TPL) is a national nonprofit organization dedicated to conserving land for people to enjoy as parks, gardens, and natural areas. Since 1972, TPL has conserved more than 3.2 million acres of land nationwide. In Arizona, TPL has helped protect more than 256,000 acres.

To help state agencies and local governments acquire land, TPL assists communities in identifying and securing public financing. TPL's Conservation Finance program offers technical assistance to elected officials, public agencies and community groups to design, pass and implement public funding measures that reflect popular priorities. Since 1996, the program has helped states and local governments around the country pass 448 measures creating more than \$35 billion in new funding for parks and land conservation. Overall, voter support of conservation finance measures in Arizona has been very strong. Every one of the 22 conservation finance measures to appear on the ballot in jurisdictions around the state since 1996 have been approved by voters, creating more than \$2 billion in new funding.¹

In 2008, The Trust for Public Land held an open application process for an economic analysis of open lands pilot study in the West. TPL selected Pinal County, Arizona, from among the many well-qualified applicants for the pilot study. This report, *Economic Benefits of Open Space and Trails in Pinal County, AZ*, was first presented to the Board of Supervisors in November 2011 and completed in 2012. Land conservation is an integral element of the Pinal County economy, as demonstrated in this economic analysis. The value of open space to the county is further reflected by its decision in 2013 to create the Open Space and Trails Department, and in numerous planning efforts and studies conducted by the county, the Pinal Partnership's Parks, Trails Open Space, Public Lands Committee, and other entities. In January 2014, Pinal County asked the Trust for Public Land to provide technical advice and assistance to the Open Space and Trails Department to explore potential public financing options for trails and open space conservation.

There are a number of potential funding options that can be “knit together” to protect the open space infrastructure of the county. State, federal, local, and private sources all have a role to play in achieving this conservation objective. The purpose of this study is to research the most viable local public funding options available to the county. Given the substantial investment of time and resources required for a successful conservation finance initiative to voters, preliminary research is essential to determine the feasibility of such an effort.

¹ The Trust for Public Land, LandVote database, January 1, 2014.

EXECUTIVE SUMMARY

At the request of Pinal County, the Trust for Public Land has undertaken a feasibility analysis to explore public funding available to the county to develop and improve the county's system of trails and protect its natural resources. In order to understand what would be an appropriate funding source or sources, this report first briefly delves into the county's background, including its fiscal status and priorities. Next, the report analyzes possible alternatives for funding a conservation land acquisition and management program, including the legal authority and revenue raising capacity of each mechanism. Finally, since most revenue options require approval by voters, this report provides pertinent election information, such as voter turnout history and election results for local finance measures.

In Arizona, local government funding dedicated for land conservation has primarily taken the form of general obligation bonds and the sales tax. This study focuses on the options that present the best opportunities for financing in Pinal County, which are as follows:

1. Property Tax. Pinal County may impose a secondary property tax by submitting the question to electors at a November election. **For example, a 0.15 property tax levy would generate approximately \$3 million annually at a cost of \$25 per year to the average homeowner in the county.** A secondary property tax must be approved by a majority of county voters.
2. Bonding. The county has ample debt capacity to issue a general obligation bond for conservation purposes and levy property taxes to pay the debt service. The bond proposal must be submitted to the county voters at a November election. **A \$20 million bond would add approximately \$1.6 million to the county's annual debt service and would cost the typical homeowner an average of \$13 per year over the life of the bond (20 years).** Bond proceeds are limited to capital projects and may not be used for operations and maintenance purposes. The Board of Supervisors must adopt a resolution and submit the question of a bond issue to the county voters.
3. Sales Tax. While the county is authorized to impose a transaction tax for capital projects (including land conservation), there is a cap on the maximum rate of 0.5 percent. Pinal County currently levies a transactions tax for roads at the full 0.5 percent rate. Therefore, a capital projects tax will not be an option for raising funds for open space and trails purposes in Pinal County until the current road tax terminates as projected in 2026

This report does not include a number of other useful tools that may be employed on a smaller scale or for individual projects such as development agreements, park user fees, zoning or regulatory conditions, public-private partnerships, or philanthropic donations. The Pinal Partnership Open Space Initiative 2012 Report describes several additional tools for acquiring open space from land exchanges to state and federal conservation programs.

Next steps should include narrowing funding options to those that match the needs of the County and testing voter attitudes toward a specific set of funding proposals. TPL recommends conducting a public opinion survey that tests ballot language, tax tolerance, and program priorities of voters in Pinal County.

BACKGROUND

Overview²

Pinal County is located in the south-central part of Arizona, bordered on the north by Maricopa County and on the south by Pima County. This location is approximately halfway between Phoenix and Tucson, the two largest cities in the state. Pinal County encompasses 5,374 square miles, of which 4.5 are water. Generally rural in nature, the county has two distinct regions. The eastern portion is characterized by mountains with elevations to 6,000 feet and copper mining. The western area is primarily low desert valleys and irrigated agriculture.

The communities of Mammoth, Oracle, San Manuel, and Kearny have traditionally been active in copper mining, smelting, milling and refining. Arizona City, Eloy, Maricopa, Picacho, Red Rock and Stanfield have agriculture based-economies. Apache Junction, Arizona City, Coolidge, Eloy, and particularly Casa Grande have diversified their economic base to include manufacturing, trade and services. This expansion and diversification has been facilitated by their location in the major growth corridor between Phoenix and Tucson. Florence is the county seat.

| Pinal County Population | |
|-------------------------------|----------------|
| Jurisdiction | 2012 |
| Pinal County (Unincorporated) | 193,117 |
| Casa Grande | 49,923 |
| Maricopa | 45,821 |
| Apache Junction | 36,268 |
| Florence | 26,920 |
| Eloy | 17,879 |
| Coolidge | 12,496 |
| Superior | 2,874 |
| Kearny | 1,965 |
| Mammoth | 1,466 |
| Queen Creek | 463 |
| Pinal County Total | 389,192 |

Source: Arizona Dept. of Administration

Tourism also impacts the county economy. Attractions include the Old West Highway 60, Casa Grande Ruins National Monument, Picacho Peak State Park, Boyce Thompson Arboretum State Park, Oracle State Park and University of Arizona Biosphere II, McFarland State Park, Lost Dutchman State Park, Skydive Arizona, the world’s largest skydiving drop-zone, and the Florence Historical District, with 120 buildings on the National Register.

The state of Arizona is the county’s largest landholder with 35 percent, followed by individuals and corporations, 22 percent; Indian reservations, 23 percent; the U.S. Forest Service and Bureau of Land Management, 14 percent; the remaining 6 percent is other public land.

Pinal County is the epicenter of growth in Arizona and the Southwest. According to the U.S. Census Bureau, Pinal was the second fastest-growing county in the nation from 2000 to 2010—increasing by an astounding 109 percent from 180,000 to 376,000 people. The Arizona Department of Commerce estimates that the county’s population will reach a 1.3 million by 2050.

| Population Projections 2012-2020; Pinal & Surrounding Counties | | | | | | | | |
|--|-----------|--------------|-----------------|-------------|----------------|-------------|-------------------|---------------|
| Year | Arizona | Pinal County | Maricopa County | Pima County | Cochise County | Gila County | Santa Cruz County | Graham County |
| 2012 | 6,498,600 | 389,200 | 3,884,700 | 990,400 | 130,800 | 53,600 | 48,700 | 37,300 |
| 2020 | 7,485,000 | 493,200 | 4,506,900 | 1,100,000 | 142,400 | 55,700 | 55,700 | 41,200 |
| % Change | 15% | 27% | 16% | 11% | 9% | 4% | 14% | 10% |

Source: Pima County Assn of Gov'ts

² Sources include: <http://pinalcountyaz.gov/Visitors/Documents/pinal%20county.pdf> and Pinal County 2012 CAFR.

Governance

Pinal County is governed by a five-member Board of Supervisors, having expanded from three in 2012. Supervisors are elected for a four-year term by the voters of the district in which each member resides. The Board appoints a County Manager to act as the administrative head of the county. The current supervisors and the expiration of their terms of office are listed to the right.

| Pinal County Board of Supervisors | | | |
|-----------------------------------|----------|---------------|-------------|
| Supervisor | District | First Elected | End of Term |
| Pete Rios | 1 | 2008 | 2016 |
| Cheryl Chase | 2 | 2012 | 2016 |
| Stephen Miller | 3 | 2012 | 2016 |
| Anthony Smith (Chair) | 4 | 2012 | 2016 |
| Todd House | 5 | 2012 | 2016 |

Fiscal Status³

As the focus of this report is the feasibility of dedicating additional public funds for land conservation it is important to consider the fiscal status of the county and potential future demand for public funding for other priorities. The Pinal County Board of Supervisors approved the county's \$373 million fiscal year 2014 budget in June 2013. The FY 2014 budget includes a continuation of the existing tax rate, funding for phase two of the Hunt Highway completion, extension of Ironwood/Gantzel Road, and continuing to surface more dirt roads and carry out pavement preservation projects throughout county. The majority of expenditures (63 percent) in the budget are in the public safety sector.

The following is a recent summary of Pinal County fiscal health from the Fitch rating agency.

SOUND FINANCES DESPITE REVENUE CYCLICALITY

Property tax revenues provide about half of general fund support; economically sensitive sales taxes and intergovernmental revenues (largely state shared sales tax revenues) account for about 32 percent of total general revenues.

Management has avoided significant reserve draws during the past several years of challenging budgets by raising its primary ad valorem tax rate (in fiscal 2011) and through significant and ongoing cost savings. Salary freezes, attrition savings, reductions in force and budgetary controls have contributed to reduced expenditure levels.

A fiscal 2012 general fund net operating surplus after transfers of \$705,000 reflects a steady property tax rate, improved intergovernmental revenues and additional cost savings. The unrestricted fund balance of \$43 million represents a strong 25.7 percent of spending, well in excess of the county's 15 percent unassigned policy level. Consistent with recent practice, the county funded several million in capital from the general fund.

The fiscal 2013 balanced budget includes a reduction in the property tax rate to \$3.79 cents from \$3.99 cents, further strengthening of sales and intergovernmental tax revenues, and cost reductions. Officials project a \$5.4 million net surplus for fiscal 2013, which benefits from a legislatively approved one-time transfer of \$6.7 million from well-funded special

³ Excerpted from <http://www.businesswire.com/news/home/20130610006474/en/Fitch-Affirms-Pinal-County-MPC-AZ-COPs>.

revenue funds to mitigate \$3.1 million in state funding losses and a one-time lump-sum pay adjustment of about \$2 million.

BUDGET CHALLENGES REMAIN

The balanced fiscal 2014 budget includes a flat ad valorem tax rate, moderate improvement in sales and intergovernmental revenues and continued cost controls. The budget also includes the first salary increase since 2008. Fitch notes that challenges remain, including the county's expectation of continued increases in public safety expenditures. These incorporate the ongoing U.S. Immigration and Customs Enforcement (ICE) costs of the county's adult detention facility which exceed the facility's ICE contract revenues. However, officials report the potential for modest relief based on the possibility of a rate adjustment on the ICE contract. Officials report that the fiscal 2014 tentative budget was balanced without tapping special revenue funds, although there is a potential for further loss of state funding which could pressure the current budget.

MODERATE DEBT

The county's overall debt is low at about \$1,180 per capita and moderate at 2.7 percent of fiscal 2013 market value. Amortization is above average at about 65 percent in 10 years. The county has no immediate debt issuance plans. The series 2004 Certificates of Participation (COPS) were issued to fund expansion of the county's adult and juvenile detention facilities and sheriff training center.

SOUND FINANCIAL POSITION

The county has shown a willingness to raise revenues and cut costs in order to maintain solid reserves throughout the recession. Officials project a net surplus for the current year and a balanced 2014 budget benefiting from sales tax growth and cost management.

TAX-BASE DECLINES

The tax base lost a significant portion of the value gained in the decade leading up to the regional housing collapse, with growth expected in fiscal 2015 based on the two-year assessment process.

RECOVERING AREA ECONOMY

An improved local economy is evidenced by local sales tax growth and strong growth in building permits and residential housing values.

The county's assessed value peaked in fiscal 2010 at \$2.9 billion, representing a five-fold increase over its \$618 million value in fiscal 2000, as development expanded southeast from Phoenix. The fiscal 2014 \$2 billion primary assessed valuation represents a 35 percent decline in cumulative value since the peak. The tax base reflects moderate concentration, with large taxpayers representing utility, mining, energy, retail, and telecom concerns. The county projects a 5 percent to 10 percent increase in fiscal 2015 values based on current development underway and an increase in existing property values.

The county's strategic location adjacent to Maricopa County and its large mass of developable land position it for strong growth already underway. The resident income levels approximate those of the state. Unemployment trends moderately above the state and national levels; however, at 8.4 percent as of March 2013, the rate is improved from recent

peaks due to job growth. Large governmental and health services employers lend stability to the local economy.

Open Space and Trails⁴

Pinal County is home to five state parks, four wilderness areas, three national monuments, two national forests and a national scenic trail. The Pinal County Open Space and Trails Department, created by the new five-member Board of Supervisors, also provides several neighborhood/community parks and manages approximately 50 miles of the Arizona National Scenic Trail and the 9 mile Lost Goldmine Trail. The county also contains significant critical habitat for the Sonoran Desert Tortoise.

In December 2013, the Pinal County Board of Supervisors approved a new Open Space and Trails Advisory Commission. The commission will consist of ten members from the public. Each of the five County Supervisors will have two selections to the body. The members must be either a resident of Pinal County or be a business or property owner within the county. The commission will act as a recommending body to the Supervisors on a variety of issues surrounding open space, trails and regional parks. They will also help to develop and encourage public participation in support of open space, trails and regional parks within the county boundaries.

The Pinal County Open Space and Trails Master Plan (the Plan) is the foundation of the Open Spaces and Places chapter of the Pinal County Comprehensive Plan (2009, amended 2012), and it identifies nearly 1.4 million acres of proposed open space, trails, and regional parks to meet diverse recreation demands, provide trail connectivity throughout the county, protect critical natural and cultural resources, all to sustain the quality of life the county residents envision.

Other planning efforts have built on this foundation, including the Pinal County Open Space Initiative 2012 Report from the Pinal Partnership and the Winkelman Natural Resource Conservation District Conservation Plan for the Sonoran Desert Tortoise. The Pinal Partnership is a coalition of community, business, educational and governmental leaders whose goal is to provide leadership and support in specific areas: improve research, planning and coordination of private and public efforts related to infrastructure, natural resources and community development in Pinal County. The Partnership Parks, Trails, Open Space, and Public Lands Committee works to promote the value of existing and planned parks, trails, public lands and open space; and to influence stakeholders and landholders to plan for and provide an interconnected system of parks, trails, public lands and open space countywide.

The Open Space Initiative report identifies open space as potentially the most valuable infrastructure in Pinal County, a view supported by the Trust for Public Land's economic benefits study of the county in 2010.⁵ The table on the following page summarizes some of the findings of this study. The Initiative Report presents potential partnerships and creative ideas for implementing the Pinal County Open Space and Trails Master Plan.

⁴ Sources include: Pinal County Open Space and Trails Master Plan 2007; Pinal County Comprehensive Plan 2009; Pinal Partnership Open Space Initiative 2012 Report.

⁵ The Trust for Public Land. "The Economic Benefits of Open Space and Trails in Pinal County, Arizona." <http://www.tpl.org/sites/default/files/cloud.tpl.org/pubs/benefits-az-PinalCountyReport.pdf>

Table 1. Summary of Estimated Annual Benefits of Parks, Trails, and Protected Open Space in Pinal County

| Benefit Category | Benefit Subcategory | Land Category | Pinal County Total |
|-----------------------------------|--------------------------------|--|---|
| Recreation and Tourism | | | |
| Outdoors tourism value | Tourist spending | Parks and trails | \$36,500,000 |
| | Sales tax on tourist spending* | Parks and trails | \$672,000 |
| Direct use value | | Parks and trails | \$100,000,000 |
| Human health value | | Parks and trails | \$12,100,0000 |
| Government Cost Savings | | | |
| Enhanced property value | Additional property value* | Parks and protected open space | \$190,000,000 |
| | Additional property tax | Parks and protected open space | \$2,720,000 |
| Water Supply | | Parks, protected open space, and trust lands | Land conservation can protect and conserve drinking water supplies. |
| Preventing and fighting wildfires | | Parks, protected open space, and trust lands | 147,000 acres of parks and protected open space are at high risk of wildfire, an additional 159,000 acres of state trust land are at high risk. |
| Agriculture | | | |
| Agricultural value | Sales of agricultural products | Open space | \$700,000,000 |

* Additional property value is a one-time boost to the properties' value and does not accumulate each year. Sales tax on tourist spending is a subset of tourist spending. All other benefits accrue annually.

The Winkelman Natural Resource Conservation District covers most of the eastern half of Pinal County. In 2010 the Sonoran Desert Tortoise (SDT) was added to the list of candidates for Endangered Species Act protection, where its status is reviewed annually. The Fish and Wildlife Service determined that livestock grazing was not a threat to the SDT, but development, disease, predators, invasive species, climate change, and lack of regulation were cited as threats to SDT⁶. The preliminary ESA listing decision is due by September 2015 and the final decision is expected a year later.

⁶ <http://pinalcountyaz.gov/Departments/BoardofSupervisors/Lists/Minutes/Attachments/651/02-1%20Sonoran%20Desert%20Tortoise,%20Natural%20Resource%20Conservation%20District.pdf>

COUNTY FINANCING OPTIONS

Choosing a Funding Strategy

Generally, there are three primary types of revenue sources available to local governments to pay for parks and land conservation: discretionary annual spending, creation of dedicated funding streams, and debt financing. The financing options utilized by a community will depend on a variety of factors such as taxing capacity, budgetary resources, voter preferences, and political will.

Significant, dedicated funding generally comes from broad-based taxes and/or the issuance of bonded indebtedness, which often require the approval of voters. In TPL's experience, local governments that create funding via the legislative process provide substantially less funding than those that create funding through ballot measures. As elected officials go through the process of making critical budgetary decisions, funding for land conservation often lags behind other public purposes, and frequently less than what voters would support. It is understandably often difficult to raise taxes without an indisputable public mandate for the intended purpose.

The power of conservation finance ballot measures is they provide a tangible means to implement a local government's vision. With their own funding, local governments are better positioned to secure scarce matching funding from state or federal governments or private philanthropic partners. Having a predictable funding source empowers the city or county to establish long-term conservation priorities that protect the most valuable resources, are geographically distributed, and otherwise meet important community goals and values.

Nationwide, a range of public financing options has been utilized by local jurisdictions to fund parks and open space, including general obligation bonds, the local sales tax, and the property tax. Less frequently used mechanisms have included special assessment districts, real estate transfer taxes, impact fees, and income taxes. The ability of local governments to establish dedicated funding sources depends upon state enabling authority.

In Arizona, the state provides local governments with several options for funding capital purchases and improvements, such as the conservation of land for parks, trails, and open space. Common funding sources outlined in this study include general obligation bonds, the property tax, and the sales tax. Each of these funding mechanisms require approval by the electorate and, in various communities in Arizona, they have enjoyed widespread support.⁷ Appendix A contains a table describing 23 finance measures for parks and open space considered by voters in local jurisdictions around Arizona since 1996, all of which were approved for a 100 percent success rate at the ballot.⁸

Many communities have also had success leveraging local sources with funds from some federal conservation programs.

Property Tax

The property tax is one of the largest tax revenue sources for many local jurisdictions, including Pinal County. In Arizona, property taxes are levied by the state, local governments, schools, and

⁷ See Appendix A for listing of voter-approved funding mechanisms for land conservation in Arizona.

⁸ Trust for Public Land, LandVote database.

special districts. Property taxes are levied using a combination of secondary and primary rates, which are applied to the Full Cash Value (FCV) and Limited Property Value (LPV), respectively. Starting in 2015, all Rates will be applied to the LPV. In addition, Arizona's property tax system "classifies" property according to its usage. Each class of property is assigned an assessment ratio, pursuant to state law, ranging from 1 percent to 19 percent. Residential property has an assessment ratio of 10 percent of the LPV.

Primary taxes are used to meet operating and maintenance expenses. Counties are limited to an increase in primary property tax levies of two percent over the amount levied in the previous year, plus new construction.⁹ For residential properties, the primary tax that may be collected may not exceed one percent of the property's market value.¹⁰ Voter approval is required to exceed these tax limits and the override measure must state the number of years that the tax will be in effect, estimated tax costs, and the purpose for providing the revenue.¹¹ Neither primary property tax limit applies to ad valorem taxes or special assessments levied to pay the principal and interest on bonded indebtedness or other long-term obligations issued or incurred for a specific purpose.¹²

Secondary taxes are used to meet special obligations, such as the repayment of bonds, special district levies, and voter-approved overrides.¹³ Secondary property taxes may be imposed for a period of two to seven years.

The Property Tax in Pinal County

The primary property tax rate for Pinal County is \$3.799 per \$100 of assessed value. This primary tax rate is used for general operation of the county such as courts and public safety. Among Arizona's 15 counties, Pinal County has the 2nd highest primary property tax rate in the State and the 5th highest primary property tax levy per capita at \$213.¹⁴ While Pinal County itself has no secondary tax, other entities in the county, including but not limited to School Districts, Fire Districts, and the Community College, do charge a secondary tax.¹⁵

Using the property tax for open space

Pinal County could raise a substantial amount of money on an annual basis for open space and trails by imposing a secondary property tax for that purpose. The table to the right illustrates the estimated revenue that could be generated from various secondary property tax levies and the cost to the average homeowner for each levy rate. For example, a tax of \$0.15 per \$100 of assessed value would generate approximately \$3 million annually (\$21 million over seven years—the maximum levy term) and cost the average homeowner in the county about \$25 a year.

| Tax Increase | Taxable Valuation* | Annual Revenue | Cost /Year/ Avg. Home ** |
|---------------------|---------------------------|-----------------------|---------------------------------|
| 0.10 | \$2,005,151,766 | \$2,005,152 | \$16.81 |
| 0.15 | \$2,005,151,766 | \$3,007,728 | \$25.22 |
| 0.20 | \$2,005,151,766 | \$4,010,304 | \$33.62 |
| 0.25 | \$2,005,151,766 | \$5,012,879 | \$42.03 |
| 0.30 | \$2,005,151,766 | \$6,015,455 | \$50.44 |

*Total net assessed valuation for 2014.
**Based on median sale price of \$168,123. Does not include exemptions.

⁹ Ariz. Const. Art. 9, §19.

¹⁰ Ariz. Const. Art. 9, §18.

¹¹ §42-17201.

¹² Ariz. Const.. Art. 9, §18(2)(a), §19(2)(a).

¹³ §42-11001.

¹⁴ Pinal County Fiscal Year 2013-2014 Budget Development Priorities, February 27, 2013.

¹⁵ <http://pinalcountyaz.gov/Departments/BudgetOffice/Pages/FAQ.aspx>

In addition, the county could bond against this revenue stream as illustrated in the table to the right.

| Bond Issue | Interest Rate | Years to Maturity | Annual Debt Svce |
|--------------|---------------|-------------------|------------------|
| \$5,000,000 | 5.5% | 7 | \$879,822 |
| \$7,000,000 | 5.5% | 7 | \$1,231,751 |
| \$10,000,000 | 5.5% | 7 | \$1,759,644 |
| \$12,000,000 | 5.5% | 7 | \$2,111,573 |
| \$15,000,000 | 5.5% | 7 | \$2,639,466 |

Process for Implementing a Property Tax Increase

The county board of supervisors may conduct an election to authorize a levy that would increase the county property tax.¹⁶ Instead of an actual increase in the primary property tax levy, a secondary property tax would be levied, if approved by voters, and amounts collected would be separately accounted in a fund in the county treasury.

In order to initiate a proposed property tax increase, the board must adopt a resolution by a vote of at least two-thirds of its membership to request that voters approve a secondary property tax levy. The question shall then be submitted to the qualified county electors at a special election held on the first Tuesday after the first Monday in November.¹⁷ In the resolution requesting the voters to approve the levy, the board shall state:

- The number of years the increased tax shall be levied in excess of the prescribed limitations. The time period may not be less than two years nor more than seven years.
- The purpose for the additional revenue.
- The maximum dollar amount of secondary property tax that may be collected in each year.
- The estimated secondary property tax rate that will be levied in the first year.

If voters approve the levy, the maximum amount of taxes levied for any year may not exceed the amount stated in the board resolution requesting voter approval of the levy.

Expenditure Limitation

Counties in Arizona are subject to an expenditure limitation that restrains annual increases in expenditures to growth in population and inflation using FY1979-1980 as the base year.¹⁸ The expenditure limitation applies to expenditures made from local revenue sources, which generally include any taxes or fees levied by the town, but does not apply to fire districts, community college districts, school districts, or other special districts as they are legally separate entities from the town, nor does it apply to grants and contracts with other governments. Expenditures for capital improvement projects and major capital items that are financed by accumulated fund balance are subject to the expenditure limitation, but capital spending that is funded by debt and voter-approved capital accumulation funds are excluded from the expenditure limitation.

This report assumes that voters will approve a capital accumulation fund when they approve property taxes for open space.¹⁹

¹⁶ §42-17201.

¹⁷ §16-204; §42-17201(c).

¹⁸ Ariz. Const. Art. 9, §20.

¹⁹ The same ballot measure asking voters to approve of a secondary property tax levy for land conservation may ask voters to approve of a capital accumulation fund for land and watershed conservation because it meets the single subject requirement of Article XXI of the Arizona Constitution. See also *Taxpayer Protection Alliance v. Arizonans Against Unfair Tax Schemes*, 16 P.3d 207, 208 (Ariz. 2001) (stating that propositions within a ballot measure must be “sufficiently related to a common purpose or principle that the proposal can be said to ‘constitute a consistent and workable whole on the general topic embraced,’ that ‘logically speaking, . . . should stand or fall as a whole’”(quoting *Korte v. Bayless*, 16 P.3d 200, 203-04 (Ariz. 2001)).

Bonds

To raise funds for capital improvements, such as land acquisition or trails and building construction, counties and municipalities in Arizona may issue bonds. There are two main types of bonds: general obligation (“GO”) bonds, which are guaranteed by the local taxing authority, and revenue bonds that are paid by project-generated revenue or a dedicated revenue stream such as a particular tax or fee. The issuance of bonds is not subject to the constitutional expenditure limitation.

Towns, cities, counties and municipal corporations in Arizona may not become indebted in an amount exceeding 6 percent of the net secondary assessed valuation in the political subdivision without the assent of a majority of the voters.²⁰ With the assent of a majority of the property taxpayers, counties may issue general obligation bonds up to 15 percent of the net secondary assessed valuation. Generally, bond proceeds are limited to capital projects and may not be used for operations and maintenance purposes.²¹

Pinal County’s outstanding indebtedness, as of June 2012 was \$173,017,000. Revenue bonds comprise the existing debt. The county has no general obligation bonds outstanding.²² The Fitch rating agency affirms the county’s implied unlimited tax general obligation rating at ‘AA-’ indicating strong credit and low risk.²³

Pinal County has ample capacity to issue GO bonds for open space and trails purposes. This report assumes that the county would seek voter approval for bonds under the 15 percent limit, however, it may be possible to issue debt without a vote under the 6 percent limit.

| Legal Debt Margin Calculation | |
|-------------------------------|-----------------|
| Secondary Assessed Value | \$2,218,641,000 |
| Debt Limit (6 %) w/o vote | \$133,118,460 |
| Debt Limit (15%) w/ vote | \$332,796,150 |
| Debt Applicable to limit | \$0 |

Issuing GO bonds for land conservation

The table to the right illustrates the estimated annual debt service, required property tax rate per \$100 of assessed valuation, and annual household cost of various general obligation bond issue amounts for open space and water protection purposes. **For example, a \$20 million bond would add approximately \$1.6 million to the county’s annual debt service and would cost the typical homeowner an average of \$13 per year over the life of the bond (20 years).**

TPL’s bond cost calculations provide an estimate of debt service, tax increase, and cost to the average homeowner in the

| Pinal County Bond Financing Costs | | | | |
|--|------------------|--------------|------------------------|--------------------|
| <i>Assumes a 20-year bond issues at 5.0% Interest Rate</i> | | | | |
| <i>2014 Net Assessed Valuation (AV)= \$2,,005,151,766</i> | | | | |
| Bond Issue | Annual Debt Svce | Tax Increase | Cost/ Ave./ Household* | Cost/ \$250K/ Home |
| 10,000,000 | \$802,426 | 0.04 | \$7 | \$10 |
| 20,000,000 | \$1,604,852 | 0.08 | \$13 | \$20 |
| 40,000,000 | \$3,209,703 | 0.16 | \$27 | \$40 |
| 50,000,000 | \$4,012,129 | 0.20 | \$34 | \$50 |
| 70,000,000 | \$5,616,981 | 0.28 | \$47 | \$70 |

***Based on median sale price of \$168,123. Does not include exemptions.*

²⁰ Ariz. Const. Art. 9, §8; §35-451.

²¹ Federal IRS rules governing the issuance of tax-exempt bonds limit the use of proceeds to capital purposes such that only a small fraction of bond funds may be used for maintenance or operations of facilities. State and local laws may further limit the use of bond proceeds.

²² Pinal County Fiscal Year 2013-2014 Budget Development Priorities, February 27, 2013

²³ <http://www.businesswire.com/news/home/20130610006474/en/Fitch-Affirms-Pinal-County-MPC-AZ-COPs>

community of potential bond issuances for land conservation. Assumptions include the following: the entire debt amount is issued in the first year and payments are equal until maturity; 20-year maturity; and 5 percent interest rate. Property tax estimates assume that the county would raise property taxes to pay the debt service on bonds, however other revenue streams may be used. The cost per household represents the average annual impact of increased property taxes levied to pay the debt service. The estimates do not take into account growth in the tax base due to new construction and annexation over the life of the bonds. The jurisdiction's officials, financial advisors, bond counsel and underwriters would establish the actual terms of any bond.

Process for implementation

The County Board of Supervisors must adopt a resolution and provide that the question be submitted to the county voters at an election to be held on the first Tuesday after the first Monday in November.²⁴ Approval or rejection of the bond proposition is made by a majority of the votes cast on the issue.

The official ballot for the bond election must contain the official title, descriptive title and number of the measure to be voted upon at the ensuing election.²⁵ It must also contain all of the following, so long as the official ballot directs the voter to the full text of the official and descriptive titles and the questions and propositions as printed on the sample ballot and posted in the polling place:

- The number of the measure in reverse type and at least twelve point type.
- The designation of the measure²⁶ or as a question, proposition or charter amendment, followed by the words "relating to..." and inserting the subject.
- Either the statement that describes the effects of a "yes" vote and a "no" vote²⁷ or, for other measures, the text of the question or proposition.
- The words "yes" and "no" or "for" and "against", as may be appropriate and a place for the voter to put a mark.

Appendix B contains selected examples of ballot language that requests voters to approve general obligation bonds in counties around Arizona. Bonds are by far the most commonly utilized local public finance mechanism for parks and open space conservation in Arizona. Since 1998, eleven municipalities and counties have passed 16 bond measures at the ballot for land conservation purposes. In 2004 Pima County voters approved two bond proposals creating more than \$270 million for parks and open space.

²⁴ §35-453.

²⁵ §19-125; §16-502.

²⁶ §19-125(C)

²⁷ §19-125(D) ("There shall be printed on the official ballot immediately below the number of the measure and the official title of each measure a descriptive title containing a summary of the principal provisions of the measure, not to exceed fifty words, which shall be prepared by the secretary of state and approved by the attorney general . . .

A "yes" vote shall have the effect of _____. A "no" vote shall have the effect of _____.

The blank spaces shall be filled with a brief phrase, approved by the attorney general, stating the essential change in the existing law should the measure receive a majority of votes cast in that particular manner. In the case of a referendum, a "yes" vote shall have the effect of approving the legislative enactment that is being referred. Below the statement of effect of a "yes" vote and effect of a "no" vote there shall be printed the corresponding words "yes" and "no" and a place for the voter to put a mark as defined in section 16-400 indicating his preference.").

Sales Tax

The State of Arizona imposes transaction privilege (sales) and use taxes on the privilege of transacting business in the state, which is usually passed on the consumers. The state general transaction privilege tax is 5.6 percent. Of this 5.6 percent rate, 0.6 percent funds education and is separately accounted for by the state treasurer.²⁸

Counties in Arizona may levy a general excise tax to support and enhance countywide services, the rate for which is applied as a percentage of the state tax rate, not to exceed 10 percent.²⁹ They also levy other excise taxes, such as hotel, road and jail facilities excise taxes. Finally, counties may impose a capital projects tax upon approval of county voters for capital projects and to purchase real property, including open space and development rights.³⁰ However, the capital projects tax rate by itself, or in conjunction with a county roads excise tax,³¹ may not exceed ten percent of the state general transaction privilege tax, or 0.5 percent.

The sales tax for Pinal County is 1.1 percent. This is made up of 0.5 percent county sales tax, 0.5 percent road tax, and 0.1 percent public health district tax. In 1986 and again in 2005, Pinal County residents enacted a half-cent sales tax to provide additional funding for the construction, reconstruction, maintenance, repair, and roadside development of county, city, and town roads, streets, and bridges. The reapproved excise tax will be in place until December 31, 2026. Municipalities within Pinal County also levy sales taxes ranging from 1.8 percent in Casa Grande to 3 percent in Coolidge, Eloy, and Kearny.

While the county does not levy the capital projects tax, the roads tax is at the maximum permissible rate of 0.50 percent. Therefore, a capital projects tax will not be an option for raising funds for open space and trails purposes in Pinal County until the current road tax terminates as projected in 2026.

Special Taxing Districts

Some special taxing districts have the ability to issue bonds, make assessments, and levy secondary property taxes within their boundaries. They are legally separate entities from the county. However, no statutory special taxing district exists for parks and open space purposes in Title 48 of the Arizona statutes (Special Taxing Districts).

A county improvement district may acquire “in the name of the district, by gift, purchase or otherwise,” maintain, improve, or dispose of any real property “necessary or convenient for district operation for a community center, park or recreation area.”³² Within the district, improvements bonds may be issued and secondary property taxes may be levied.³³ The advantages of a county improvement district are that district landowners would have to approve the formation and taxes levied. A petition addressed to the board of supervisors requesting the establishment of an improvement district must be filed with the clerk of the board, if signed by a majority of the persons owning real property or by the owners of fifty-one per cent or more of the real property

²⁸ §42-5010(G).

²⁹ §

³⁰ §42-6111.

³¹ §42-6111(A).

³² §48-909(A)(10).

³³ §48-934; §48-955.

within the limits of the proposed district. Landowners also may protest individual improvements proposed by the district. A county improvement district requires careful examination of landowners, especially large landowners.

ELECTION ANALYSIS

Pinal County holds a general election on the first Tuesday following the first Monday in November. The deadline for submitting a measure to the November 2014 election is July 3, 2014 and the last day to submit arguments is July 9.³⁴ Early voting will begin on October 9.

Voter Registration and Turnout

As of February 2013, Pinal County had 160,861 registered voters. Nearly half of voters are registered “party not designated.” Turnout for November elections has varied widely from 48 percent in 2010 to 72 percent in 2012.

| Voter Registration | | |
|--------------------|-------------|----------------|
| Party | Percentage | # Voters |
| Republican | 33% | 53,085 |
| Democrat | 28% | 44,920 |
| Other | 39% | 62,856 |
| Total | 100% | 160,861 |

| Voter Turnout | | | |
|---------------|---------|--------------|-----------|
| Registered | | | |
| Date | Voters | Ballots Cast | % Turnout |
| Nov-12 | 153,056 | 109,470 | 72% |
| Aug-12 | 160,262 | 39,671 | 25% |
| Nov-10 | 164,292 | 79,643 | 48% |

Election Results

A review of local election news coverage of the past few years indicates that there have been no recent county finance propositions before voters. However, the local school districts have put several funding measures on the ballot, with mixed results. More than half of the school district budget override and bond questions were rejected.

CONCLUSIONS

Pinal County has at least two public finance mechanisms to consider for funding open space conservation and trails that are viable, pragmatic and proven: a general obligation bond and secondary property tax levy. While neither mechanism is commonly used to support capital improvements in Pinal County, they have been implemented successfully in other jurisdictions in Arizona for land conservation purposes. The Trust for Public Land recommends conducting a public opinion survey that tests ballot language, tax tolerance, and conservation priorities of voters in Pinal County.

³⁴ Personal conversation with Shannon Ortiz, Pinal County Elections Department, March 5, 2014, and Arizona Secretary of State at <http://www.azsos.gov/election/2014/Info/ImportantDates.htm>.

APPENDICES

Appendix A: Local Conservation Finance Ballot Measures

| Arizona Local Parks & Conservation Finance Measures (1996 - 2013) | | | | | |
|---|-----------|---|----------------|--------|-------|
| Jurisdiction Name | Date | Description | Funds Approved | Status | % Yes |
| Cave Creek | 9/12/2000 | Bond for the acquisition of Spur Cross Ranch and other lands for open space, parks and recreational uses | \$6,825,000 | Pass | 78% |
| Chandler | 5/18/2004 | Bond to construct, improve, and acquire parks and open spaces for recreational purposes | \$40,600,000 | Pass | 75% |
| Coconino County | 11/5/2002 | 10-year, 1/8¢ sales tax increase to protect wetlands, forests, open space, park and trail improvements | \$33,000,000 | Pass | 62% |
| Flagstaff | 5/18/2004 | Bond for regional park and neighborhood parks | \$2,800,000 | Pass | 58% |
| Flagstaff | 5/18/2004 | Bond for wildlife, meadows, greenways | 10,100,000 | Pass | 53% |
| Flagstaff | 5/18/2004 | Bond for wildlife | \$5,500,000 | Pass | 56% |
| Flagstaff | 5/18/2004 | Bond for neighborhood open space, trails, greenways, wildlife, scenic areas, geologic features | 7,600,000 | Pass | 59% |
| Gilbert | 11/6/2001 | Question 3: Portion of a bond issue for open space acquisition (total funds for measure, \$57,481,000) | \$20,394,000 | Pass | 69% |
| Glendale | 11/2/1999 | Proposition 10, Bond for open space, trails | \$53,700,000 | Pass | 68% |
| Maricopa | 11/4/2008 | Bond for park acquisition and improvements | \$65,500,000 | Pass | 61% |
| Mesa | 11/5/2012 | Bond to provide funds to acquire, construct and improve parks, open space, and lands | \$70,000,000 | Pass | 59% |
| Mesa | 3/9/2004 | Bond to provide funds to acquire, construct and improve parks, open space, and lands | \$9,750,000 | Pass | 51% |
| Peoria | 5/17/2005 | Bond to acquire, construct, improve and equip one or more parks for use as open space and for recreational purposes | \$35,000,000 | Pass | 77% |
| Phoenix | 9/7/1999 | Proposition 101, 10-year, .1 percent cent sales tax increase for open space, regional and neighborhood parks, recreation, public safety | \$256,000,000 | Pass | 80% |
| Phoenix | 3/14/2006 | Bond for recreational opportunities, open spaces and parks | \$120,500,000 | Pass | 63% |
| Phoenix | 5/20/2008 | 30-year, extension of .1 percent sales tax for open space, parks, and park improvements | \$900,000,000 | Pass | 83% |
| Phoenix | 3/13/2001 | Bond for open space and recreational facilities | \$77,000,000 | Pass | 77% |
| Pima County | 5/18/2004 | Bond for open space, habitat protection, and forests | \$174,300,000 | Pass | 66% |
| Pima County | 5/20/1997 | Bond for the improvement and acquisition of land for parks, trails, and recreation | \$96,450,000 | Pass | 62% |
| Pima County | 5/18/2004 | Question Number 4: Sonoran Desert Open Space and Historic Preservation, Bond for Sonoran Desert open space, wildlife habitat, trails, cultural and historic sites | \$36,300,000 | Pass | 68% |
| Prescott | 5/16/2000 | 1-cent sales tax, portion for open space | \$75,000,000 | Pass | 51% |
| Scottsdale | 9/11/1999 | Question 1, Bond for acquisition of specified parcel | \$200,000,000 | Pass | 77% |
| Scottsdale | 5/18/2004 | 30-year, .15% sales tax increase for acquisition of specified open space parcel | \$430,000,000 | Pass | 55% |

Source: Trust for Public Land, LandVote database.

Appendix B: Map of Arizona Finance Ballot Measures



Appendix C: Ballot Language Examples

May 2008

Pima County

Question 1: Sonoran Desert Open Space and Habitat Protection; Preventing Urban Encroachment of Davis Monthan Air Force Base

For the purpose of acquiring open space and habitat protection, including Sonoran Desert open space, protecting wildlife habitats, saguaro cacti, ironwood forests and lands around rivers, washes and recharge areas to ensure high water quality, and the acquisition of lands in the vicinity of Davis Monthan Air Force Base to prevent urban encroachment, and the acquisition of real or personal property or interests or rights in property for such purpose and paying all expenses properly incidental there to and to the issuance of such bonds, shall Pima County, Arizona be authorized to issue and sell general obligation bonds of the County in an aggregate principal amount not exceeding \$174,300,000?

November 2013

City of Mesa

PUBLIC SAFETY BONDS

Shall Mesa, Arizona, be authorized to issue and sell General Obligation Bonds of the City in the principal amount of \$51,700,000 to provide funds to acquire, construct, improve, furnish and equip buildings, which may include but is not limited to, fire stations, fire and medical dispatch/communication centers, support equipment and technology, vehicles, land and interests in land for public safety purposes, and pay all costs thereof; the bonds, and any bonds issued to refund the City's bonds, may be sold at prices that include premiums not greater than permitted by law; may bear fixed or variable interest not exceeding nine percent (9%) per annum, and may have principal payable not later than 25 years from the date issued?

These bonds will be issued as General Obligation Bonds and the issuance of these bonds will result in a property tax increase sufficient to pay the annual debt service on bonds, unless the governing body provides for payment from other sources. The bonds may be refunded by the issuance of refunding bonds of a weighted average maturity of less than 75% of the weighted average maturity of the bonds being refunded.

November 2012

City of Mesa

QUESTION 1 - PARKS, OPEN SPACE, RECREATIONAL AND AQUATIC FACILITY BONDS

Shall Mesa, Arizona, be authorized to issue and sell General Obligation Bonds of the City in the principal amount of \$70,000,000 to provide funds to acquire, construct, improve, furnish and equip parks, recreational facilities, aquatic facilities, museums, open space, bike and pedestrian paths, land and interests in land, and pay all costs thereof; the bonds, and any bonds issued to refund the City's bonds, may be sold at prices that include premiums not greater than permitted by

law; may bear interest not exceeding 8% per annum, and may have principal payable not later than 25 years from the date issued?

These bonds will be issued as General Obligation Bonds and the issuance of these bonds will result in a property tax increase sufficient to pay the annual debt service on bonds, unless the governing body provides for payment from other sources. The bonds may be refunded by the issuance of refunding bonds of a weighted average maturity of less than 75% of the weighted average maturity of the bonds being refunded

November 2011
Apache County

Shall Apache County be authorized to levy secondary property taxes for seven fiscal years commencing in fiscal year 2012-2013 in excess of the County primary property tax limits otherwise prescribed by A.R.S. §42-17051?

May 2007
City of Chandler

PURPOSE: PARKS AND RECREATION BONDS
AMOUNT: \$81,350,000

Shall the Mayor and Council of the City of Chandler, Arizona, be authorized to issue and sell the following bonds of the City:

Purposes: To construct, improve and acquire community, neighborhood, regional and aquatic parks, including recreational facilities, buildings and improvements; to acquire land for parks, recreational facilities, buildings and open spaces; to make improvements, additions and replacements to existing parks and recreational facilities and buildings; to landscape, furnish and equip existing and new parks and recreational facilities and buildings. Payment of Bonds: Each series of these bonds will be issued at the option of the Mayor and Council as general obligation bonds of the City pursuant to Title 35, Chapter 3, Article 3, Arizona Revised Statutes, payable from the levy of an ad valorem tax against the taxable property located within the City, unless the Mayor and Council provide for payment from other sources.

FOR THE BONDS
AGAINST THE BONDS

With any questions or for more information please contact:

J. Dee Frankfourth

Associate National Director of Conservation Services Program
The Trust for Public Land
Office: 206-274-2920
dee.frankfourth@tpl.org

or

Wendy Muzzy

Conservation Finance Program
The Trust for Public Land
Office: 206-274-2914
wendy.muzzy@tpl.org

www.tpl.org