

Fiscal Note

BILL # HB 2787

TITLE: Maricopa county; division; new counties

SPONSOR: Hoffman

STATUS: As Amended by House GE

PREPARED BY: Ryan Fleischman

Description

The bill would divide Maricopa County into 4 counties with specified areas effective January 1, 2023. The bill stipulates that any of the 4 counties may enter into a 10-year shared use agreement for the use of existing shared capital assets.

Estimated Impact

We estimate that the bill would potentially generate a General Fund cost. Some of these new counties could qualify for state assistance not currently received by Maricopa County.

The bill would have a larger fiscal impact at the county level. An accurate estimate of this cost would require a significant amount of resources and time to evaluate and is beyond the scope of this fiscal note. In addition, the fiscal impact would also depend on future decisions at both the state and county level regarding the specific implementation plan.

Maricopa County estimates the bill would increase county costs by a minimum of \$155.2 million annually for new county officials and staff. Maricopa County also noted this amount excludes capital and startup costs, special revenue funds, debt service and special taxing districts. The County Supervisors Association of Arizona (CSA) and the Arizona Association of Counties (AACO) did not have a specific fiscal estimate but thought that the cost would exceed cost estimates for just new county officials and staff.

The \$155.2 million appears plausible as a starting point. This estimate will require much more work by county officials and will eventually be higher as capital costs and other issues are factored into the long-term estimates.

The bill also has potential impacts on property tax rates in each of the 4 counties. While Mogollon's rate could be lower than the other 3 due to property wealth and a smaller population, there are too many unknowns to predict these rates with any certainty.

Analysis

The bill would divide Maricopa County into 4 counties.:

- The new, smaller Maricopa County would include Tolleson, southern and central Phoenix, Tempe, and Guadalupe. Current population: 1.7 million.
- Hohokam County would include Mesa, Chandler, Gilbert, and Queen Creek. Current population: 1.1 million.
- Mogollon County would include northern Phoenix, Scottsdale, Paradise Valley, and Fountain Hills. Current population: 745,100.
- O'odham County would include Gila Bend, Wickenburg, Avondale, Surprise, Glendale, and Peoria. Current population: 639,300.

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County Officials and Staff Costs

The bill stipulates that Maricopa County operations continue in their existing form through a maximum transition period of 3 years. Each county is required to hold a special election within 120 days of the bill's January 2023 effective date for purposes of choosing the new county supervisors. Each county would be responsible for the cost of the special election.

Maricopa County estimates that the bill will increase county costs by at least \$155.2 million annually for new 33 new elected county officials and 392 new county positions. Of this amount, we estimate that the salaries and benefits of the 33 new elected officials would cost \$6.5 million in 2025. These salaries are set in state statute and are scheduled to increase in that year.

The \$155 million estimate assumes that 2.5% of current Maricopa County expenditures would need to be duplicated in each of the 3 newly-created counties. We are unable to determine if this estimate for the fixed cost factor is reasonable within the scope of this fiscal note.

Capital Expenditures

The \$155 million estimate excludes capital costs. Because the bill stipulates that any of the 4 counties may enter into a 10-year shared use agreement for the use of existing shared capital assets, Maricopa County and the newly established counties potentially may not incur capital expenditures for up to 10 years after the effective date.

County Tax Implications

The total fiscal impact would also depend on tax rates set by the new counties. The new counties would need to set tax rates to generate sufficient revenues for budgetary expenditures. The current Maricopa County property tax rate is \$1.35 per \$100 of net assessed valuation. According to the Maricopa County analysis, the Hohokam, O'odham and the new Maricopa rates would all be above \$2.00 and the Mogollon rate would be \$0.63. Compared to the other 3 districts, Mogollon's property wealth would allow them to set a lower rate.

While we agree that Mogollon's property wealth could potentially allow a lower rate, Maricopa County's projected rates are highly speculative. They assume a high degree of proportionality between the new counties' population level and their expenditures and non-property tax revenues. Those expenditure and revenue decisions would ultimately be made by the new Board of Supervisors in each county. In addition, the Legislature would need to enact future legislation to address how the expenditure limits and levy limits are established for each of the new counties.

The bill could also affect county sales taxes. Under current law, counties with a population of less than 1.5 million are authorized to levy a general county sales tax of up to 0.5% on the same tax base that applies to the state Transaction Privilege Tax (TPT). The imposition of such tax requires a unanimous vote by the Board of Supervisors. Under the bill, 3 of the 4 new counties would have a population of less than 1.5 million. Therefore, unless the Legislature amends current law, these 3 counties (Hohokam, Mogollon, and O'odham) could start levying a general county sales tax with a rate of up to 0.5%.

State General Fund Impacts

State assistance programs to counties could be affected by this bill. For example, Maricopa is the only county not currently reimbursed by the state for the costs of their probation programs. The state would incur new costs if any of the new counties seek reimbursement of these costs. A second example is the ongoing appropriation in the annual General Appropriations Act of \$550,050 to assist each county with a population of less than 900,000. The new Mogollon and O'odham Counties would qualify for this program. These examples are not necessarily exhaustive as we would need to do further research to confirm if there are other state level impacts.