

CITY COUNCIL REPORT



Meeting Date: 06/12/2018
Charter Provision: *Provide for the orderly government and administration of the affairs of the City*
Objective: *Adopt Budgets*

ACTION*

Public Hearing and, if needed, Truth In Taxation Hearing on the proposed fiscal year 2018/19 Property Tax Levy

- 1) SOLICIT public testimony on the proposed fiscal year 2018/19 property tax levy, and
- 2) APPROVE a motion, by a roll call vote (if needed), to levy the proposed property taxes, taxes to be assessed by ordinance on June 26, 2018.

BACKGROUND

The Arizona State Constitution and State law specify a two-tiered property tax system. The system consists of two levies: a “limited” levy known as the primary property tax levy and an “unlimited” tax levy known as the secondary property tax levy. The primary tax levy is imposed by cities and towns for all general municipal purposes, while the secondary tax levy is only used to retire the principal and interest or redemption charges on bond indebtedness.

Per Arizona Revised Statutes (A.R.S.) § 42-17104, a public hearing on any tax levy must be held at least 14 days prior to the actual levy of the tax. In addition, pursuant to A.R.S. § 42-17107 and the City Charter, if the proposed primary property tax levy (excluding growth) exceeds the prior year’s primary property tax levy, a Truth In Taxation (TNT) hearing with more stringent guidelines would substitute the regular property tax public hearing. Additionally, a TNT hearing requires the governing body to consider a motion to levy the increased property taxes by a roll call vote. If the FY 2018/19 proposed primary property tax levy (excluding growth) exceeds the FY 2017/18 primary property tax levy, the TNT hearing would be required.

Primary Property Tax Levy (General Fund and Risk Management Fund revenue):

The FY 2018/19 proposed primary property tax levy will be used to support General Fund activities such as police and fire protection, operation and maintenance of parks and libraries, and other general governmental functions. The primary property tax levy also includes a repayment to the Risk Management Fund reserve of \$320,667 for tort liability claim payments made during calendar year 2017.

* Note: This is a preliminary report for posting purposes only and will be updated in advance of the June 12, 2018 City Council meeting.

For FY 2018/19, if the City chooses to include the allowable 2 percent statutory adjustment from all or some of fiscal years 2011/12 through 2016/17, the total proposed primary property tax levy would be up to \$31.87 million, which is an increase of up to \$3.63 million over the current year levy of \$28.24 million. The City's assessed valuation for FY 2018/19 increased 5.2 percent, which would help offset any potential increase in the primary tax rate (levy divided by assessed valuation). The current primary property tax rate of \$0.4956 per \$100 of assessed valuation would increase in FY 2018/19 up to \$0.0360 for a total maximum primary property tax rate of \$0.5316.

If the 2 percent statutory adjustment for fiscal years 2011/12 through 2016/17 is included, a Truth In Taxation Hearing would be required. Per A.R.S. § 42-17107 related to the Truth In Taxation Hearing and A.R.S. § 42-17103 related to Final Budget Adoption (including Proposed Tax Levies), as applicable, the City will:

- 1) Publish a Public Hearing Notice in the local newspaper on two separate dates:

Friday, May 25, 2018
Saturday, June 2, 2018
- 2) If needed, issue the Truth In Taxation press release prior to the June 12, 2018 Truth In Taxation Hearing.

Secondary Property Tax Levy (GO Bond Debt Repayment) – Rate expected to decrease:

Under state law, cities and towns can levy a secondary property tax for the sole purpose of retiring the principal and interest on general obligation bonded indebtedness. A city or town may levy whatever amount of secondary property taxes is necessary to pay general obligation debt service (and fees related to the debt issuances). Although the secondary property tax levy is "unlimited" to cover existing bonded indebtedness once issued, the ability to issue new bonds and incur new debt is subject to limitation by the Arizona Constitution.

For FY 2018/19, the City's proposed secondary property tax levy is forecasted to increase \$0.66 million from the FY 2017/18 adopted budget of \$33.55 million to \$34.21 million due to an increase in debt service payments. The current secondary tax rate of \$0.5889 is expected to decrease by \$0.0184 to \$0.5705 per \$100 of assessed valuation in FY 2018/19.

The FY 2018/19 Secondary Property Tax levy and rate include the use of \$0.95 million of reserves. The reserve is in compliance with HB 2011 (Chapter 212, Laws 2017), which amended A.R.S. § 35-458 to clarify that the levy shall be net of all cash in excess of 10 percent of the annual payments of principal and interest in the current fiscal year from the previous year remaining in the fund or funds prescribed by A.R.S. § 35-458(B).

Combined Property Tax Levy and Taxpayer Impact:

The combined tax levy is the aggregate of the primary (limited) and secondary (unlimited) levies. For FY 2018/19, the City's total proposed combined property tax levy is forecasted to increase over the current year by up to approximately \$4.29 million.

In FY 2018/19, citizen tax bills will reflect an estimated combined property tax rate of up to \$1.1021, which is up to \$0.0176 more than the FY 2017/18 combined rate of \$1.0845. The management of

the combined property tax rate is included in the City’s adopted financial policies for debt management, which states that the combined tax rate will not exceed \$1.50 per \$100 of assessed value. Based on this combined rate, an owner of a home with a County Assessor’s real property value of \$100,000 will pay up to approximately \$110.21 in City property taxes, applying the potential combined property tax rates. The Maricopa County Assessor’s Office, not the City of Scottsdale, determines real property values used to calculate property tax bills.

Up to about 11 cents of every dollar in property taxes paid by Scottsdale property owners would go to City government and City General Obligation debt repayment, and the remainder goes to public schools, the county, community colleges and various special districts.

RESOURCE IMPACTS

For FY 2018/19, the proposed combined property tax rate is estimated at up to \$1.1021 and the combined levy of up to approximately \$66.09 million is detailed by tax tier and fund below:

| Tax Tier | Estimated Tax Rate | General Fund | Risk Management Fund | Debt Service Fund | Total Property Tax Levy |
|-----------|--------------------------|------------------------------|----------------------|-------------------|------------------------------|
| Primary | <i>Up To</i> \$0.5316 | <i>Up To</i> \$31,558,188 | \$320,667 | - | <i>Up To</i> \$31,878,855 |
| Secondary | \$0.5705 | - | - | \$34,214,874 | \$34,214,874 |
| Combined | <i>Up To</i> \$1.1021 | <i>Up To</i> \$31,558,188 | \$320,667 | \$34,214,874 | <i>Up To</i> \$66,093,729 |

The table below provides a comparison of the current FY 2017/18 property tax rate and levy to the FY 2018/19 estimated tax rate and levy.

| Tax Tier | FY 17/18 Tax Rate | FY 17/18 Tax Levy | FY 18/19 Est. Tax Rate | FY 18/19 Est. Tax Levy |
|-----------|-------------------|-------------------|--------------------------|------------------------------|
| Primary | \$0.4956 | \$28,243,736 | <i>Up To</i> \$0.5316 | <i>Up To</i> \$31,878,855 |
| Secondary | \$0.5889 | \$33,558,964 | \$0.5705 | \$34,214,874 |
| Combined | \$1.0845 | \$61,802,700 | <i>Up To</i> \$1.1021 | <i>Up To</i> \$66,093,729 |