

CITY COUNCIL REPORT



Meeting Date: June 4, 2024
Charter Provision: *Provide for the orderly government and administration of the affairs of the City*
Objective: *Adopt Budgets*

ACTION*

Public Hearing on the Proposed FY 2024/25 Property Tax Levy

- 1) SOLICIT public testimony on the proposed fiscal year 2024/25 property tax levy, and
- 2) APPROVE a motion to levy the proposed property taxes, taxes to be assessed by ordinance on June 25, 2024.

BACKGROUND

The Arizona State Constitution and State law specify a two-tiered property tax system. The system consists of two levies, a primary property tax levy and a secondary property tax levy. The primary property 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 for the regular property tax hearing. Since the FY 2024/25 proposed primary property tax levy (excluding growth) does not exceed the FY 2023/24 primary property tax levy, the TNT hearing is not required, but a regular property tax hearing is required.

Primary Property Tax Levy (General Fund and Risk Management Fund revenue) – Rate expected to decrease:

The FY 2024/25 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 \$1,255,832 for tort liability claim payments made during calendar year 2023.

For FY 2024/25, the city's total proposed primary property tax levy of \$39.64 million is an increase of \$0.26 million over the current year levy of \$39.38 million. The increase is due to 1) the 2 percent statutory adjustment; and 2) new construction, partially offset by the decreased tort liability claim payment of \$1.3 million. The current primary property tax rate of \$0.5150 per \$100 of assessed valuation is projected to decrease by \$0.0192 to up to \$0.4958 in FY 2024/25.

Additionally, as required by A.R.S. § 42-17103 related to Final Budget Adoption (including Proposed Tax Levies), the city will publish estimates of FY 2024/25 revenues and expenses and a Public Hearing Notice regarding the tax levies in the Arizona Republic once a week for two consecutive weeks on Monday, May 20, 2024 and Tuesday, May 28, 2024.

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

Under state law, cities and towns are allowed to 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). Secondary property tax is subject to limitation by the Arizona Constitution.

For FY 2024/25, the city's proposed secondary property tax levy is forecasted to decrease \$1.74 million from the FY 2023/24 adopted budget of \$35.59 million to \$33.86 million due to a one-time paydown of 2015 General Obligation debt, a \$3.97 million correction from prior years resulting from the Qasimyar vs Maricopa County judgment, and the use of accumulated fund balance in FY 2023/24 to address debt. The current secondary tax rate of \$0.4664 is expected to decrease by \$0.0429 to \$0.4235 per \$100 of assessed valuation in FY 2024/25.

The FY 2024/25 Secondary Property Tax levy was calculated to ensure the reserve meets the required limitation prescribed in A.R.S. § 35-458(A) – that the levy 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 and secondary levies. For FY 2024/25, the city's total proposed combined property tax levy is forecasted to decrease over the current year by approximately \$1.39 million from \$74.89 million in FY 2023/24 to \$73.50 million in FY 2024/25.

In FY 2024/25, citizen tax bills will reflect an estimated combined property tax rate of \$0.9193, which is \$0.0621 less than the FY 2023/24 combined rate of \$0.9814. 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 assessed value of

\$100,000 will pay approximately \$91.93 in city property taxes, applying the proposed combined property tax rate. The Maricopa County Assessor’s Office, not the City of Scottsdale, determines real property assessed values used to calculate property tax bills.

About nine cents of every dollar in property taxes paid by Scottsdale property owners goes 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 2024/25, the proposed combined property tax rate is estimated at up to \$0.9193 and the combined levy of up to approximately \$73.50 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	\$0.4958	\$38.38	\$1.26	-	\$39.64
Secondary	\$0.4235	-	-	\$33.86	\$33.86
Combined	\$0.9193	\$38.38	\$1.26	\$33.86	\$73.50

For comparison, the current FY 2023/24 property tax rate and levy and the FY 2024/25 proposed property tax rate and levy are below:

Tax Tier	FY 23/24 Tax Rate	FY 23/24 Tax Levy*	FY 24/25 Est. Tax Rate	FY 24/25 Est. Tax Levy*
Primary	\$0.5150	\$39.30	<i>Up to \$0.4958</i>	<i>Up to \$39.64</i>
Secondary	\$0.4664	\$35.59	<i>Up to \$0.4235</i>	<i>Up to \$33.86</i>
Combined	\$0.9814	\$74.89	<i>Up to \$0.9193</i>	<i>Up to \$73.50</i>

*Note: \$ in millions; rounding differences may occur.