

CITY COUNCIL REPORT



Meeting Date: 06/13/2023
Charter Provision: *Provide for the orderly government and administration of the affairs of the City*
Objective: *Adopt Budgets*

ACTION*

Truth In Taxation Hearing and Public Hearing on the Proposed FY 2023/24 Property Tax Levy

- 1) SOLICIT public testimony on the proposed fiscal year 2023/24 property tax levy, and
- 2) By a roll call vote, APPROVE a motion to levy the proposed property taxes, taxes to be assessed by ordinance on June 27, 2023.

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. Additionally, a TNT hearing requires the governing body to consider a motion to levy the increased property taxes by a roll call vote. Since the FY 2023/24 proposed primary property tax levy (excluding growth) exceeds the FY 2022/23 primary property tax levy, the TNT hearing is required.

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

The FY 2023/24 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 \$2,201,944 for tort liability claim payments made during calendar year 2022.

* Note: This is a preliminary report for A.R.S. § 9-499.15 posting purposes only and may be updated for the final City Council Report in advance of the June 13, 2023 City Council meeting.

For FY 2023/24, the City's total proposed primary property tax levy of \$39.38 million is an increase of \$2.96 million over the current year levy of \$36.42 million. The increase is due to 1) tort liability claim payments; 2) the 2 percent statutory adjustment; and 3) new construction. The current primary property tax rate of \$0.4970 per \$100 of assessed valuation is projected to increase by \$0.0180 to \$0.5150 in FY 2023/24.

As required by A.R.S. § 42-17107 related to the Truth In Taxation Hearing, the City will:

- 1) Publish a Public Hearing Notice in the local newspaper on two separate dates:
 - Friday, May 26, 2023 and Saturday, June 3, 2023
- 2) Issue the Truth In Taxation press release prior to the June 13, 2023 Truth In Taxation Hearing.

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 2023/24 revenues and expenses and a Public Hearing Notice regarding the tax levies in the Arizona Republic once a week for two consecutive weeks on Wednesday, May 24, 2023 and Wednesday, May 31, 2023.

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

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 2023/24, the City's proposed secondary property tax levy is forecasted to increase \$5.60 million from the FY 2022/23 adopted budget of \$30.06 million to \$35.66 million due to use of accumulated fund balance in FY 2022/23 as a result of savings achieved through a prior year general obligation debt refinancing. The current secondary tax rate of \$0.4101 is expected to increase by \$0.0563 to \$0.4664 per \$100 of assessed valuation in FY 2023/24.

The FY 2023/24 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 2023/24, the City's total proposed combined property tax levy is forecasted to increase over the current year by approximately \$8.56 million from \$66.48 million in FY 2022/23 to \$75.04 million in FY 2023/24.

In FY 2023/24, citizen tax bills will reflect an estimated combined property tax rate of \$0.9814, which is \$0.0743 more than the FY 2022/23 combined rate of \$0.9071. 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 \$98.41 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 2023/24, the proposed combined property tax rate is estimated at up to \$0.9814 and the combined levy of up to approximately \$75.04 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	\$0.5150	\$37.18	\$2.20	-	\$39.38
Secondary	\$0.4664	-	-	\$35.66	\$35.66
Combined	\$0.9814	\$37.18	\$2.20	\$35.66	\$75.04

For comparison, the current FY 2022/23 property tax rate and levy and the FY 2023/24 proposed property tax rate and levy are below:

Tax Tier	FY 22/23 Tax Rate	FY 22/23 Tax Levy*	FY 23/24 Est. Tax Rate	FY 23/24 Est. Tax Levy*
Primary	\$0.4970	\$36.42	<i>Up to \$0.5150</i>	<i>Up to \$39.38</i>
Secondary	\$0.4101	\$30.06	<i>Up to \$0.4664</i>	<i>Up to \$35.66</i>
Combined	\$0.9071	\$66.48	<i>Up to \$0.9814</i>	<i>Up to \$75.04</i>

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