

CITY COUNCIL REPORT



Meeting Date: 06/11/2019
 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 2019/20 Property Tax Levy

- 1) SOLICIT public testimony on the proposed fiscal year 2019/20 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 25, 2019.

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 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 2019/20 proposed primary property tax levy (excluding growth) exceeds the FY 2018/19 primary property tax levy, the TNT hearing is required.

ANALYSIS & ASSESSMENT

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

The FY 2019/20 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 \$251,471 for tort liability claim payments made during calendar year 2018.

For FY 2019/20, the City's total proposed primary property tax levy of \$32.9 million is an increase of \$1.0 million over the current year levy of \$31.9 million, due to the 2 percent statutory adjustment.

The current primary property tax rate of \$0.5316 per \$100 of assessed valuation is projected to decrease by \$0.0118 to \$0.5198 in FY 2019/20.

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

- 1) Published a Public Hearing Notice in the local newspaper on two separate dates:
 - Friday, May 24, 2019 and Saturday, June 1, 2019
- 2) Issued the Truth In Taxation press release prior to the June 11, 2019 Truth In Taxation Hearing.

Additionally, as required by A.R.S. § 42-17103 related to Final Budget Adoption (including Proposed Tax Levies), the City published estimates of FY 2019/20 revenues and expenses and a Public Hearing Notice regarding the tax levies in the local newspaper once a week for two consecutive weeks on Friday, May 24, 2019 and Friday, May 31, 2019.

As required by A.R.S. § 9-499.15, the City posted notice of the proposed increased tax rate with the schedule of the proposed increase and a written report that supports the proposed increase on April 24, 2019, which is more than 60 days before Council will consider whether to adopt the ordinance fixing the levy (June 25, 2019).

Secondary Property Tax Levy (debt repayment):

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 2019/20, the City's proposed secondary property tax levy is forecasted to decrease \$1.2 million from the FY 2018/19 adopted budget of \$34.2 million to \$33.0 million due to a decrease in debt service payments. The current secondary tax rate of \$0.5705 is expected to decrease by \$0.0491 to \$0.5214 per \$100 of assessed valuation in FY 2019/20.

The FY 2019/20 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 2019/20, the City's total proposed combined property tax levy is forecasted to decrease over the current year by approximately \$0.3 million from \$66.1 million in FY 2018/19 to \$65.8 million in FY 2019/20.

In FY 2019/20, citizen tax bills will reflect an estimated combined property tax rate of \$1.0412, which is \$0.0609 less than the FY 2018/19 combined rate of \$1.1021. 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 approximately \$104.12 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 values used to calculate property tax bills.

About 10 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 2019/20, the proposed combined property tax rate is estimated at \$1.0412 and the combined levy of approximately \$65.8 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 | \$0.5198 | \$32.6 | \$0.3 | - | \$32.9 |
| Secondary | \$0.5214 | - | - | \$33.0 | \$33.0 |
| Combined | \$1.0412 | \$32.6 | \$0.3 | \$33.0 | \$65.8 |

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

OPTIONS & STAFF RECOMMENDATION

Recommended Approach

Staff recommends Council discuss all components (including consideration of any taxpayer input) of the total, combined FY 2019/20 proposed property tax levy and corresponding tax rate and then, by roll call (as required by State Statute), approve a motion to levy the proposed taxes and to fix the levy at the June 25, 2019 Council meeting (State law requires a period of at least fourteen days between the Truth In Taxation hearing and public hearing on the tax levy and adoption of the tax levy).

As an alternative, at the June 25, 2019, Council meeting, Council may choose to approve a motion adopting a lesser tax levy.

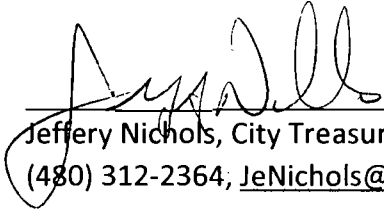
RESPONSIBLE DEPARTMENT(S)

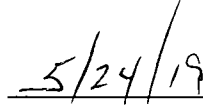
City Treasurer's Office

STAFF CONTACT(S)

Judy Doyle, Budget Director, (480) 312-2603, jdoyle@ScottsdaleAZ.gov

APPROVED BY


Jeffery Nichols, City Treasurer
(480) 312-2364, JeNichols@ScottsdaleAZ.gov


Date

ATTACHMENTS

1. Truth In Taxation Notice
2. Schedule B from FY 2019/20 Tentative Budget

TRUTH IN TAXATION HEARING NOTICE OF TAX INCREASE

In compliance with section 42-17107, Arizona Revised Statutes, the City of Scottsdale is notifying its property taxpayers of Scottsdale's intention to raise its primary property taxes over last year's level. Scottsdale is proposing an increase in primary property taxes of \$562,545 or 1.76 percent.

For example, the proposed tax increase will cause Scottsdale's primary property taxes on a \$100,000 home to be \$51.98 (total proposed taxes including the tax increase). Without the proposed tax increase, the total taxes that would be owed on a \$100,000 home would have been \$51.08.

This proposed increase is exclusive of increased primary property taxes received from new construction. The increase is also exclusive of any changes that may occur from property tax levies for voter approved bonded indebtedness or budget and tax overrides.

All interested citizens are invited to attend the public hearing on the tax increase that is scheduled to be held on Tuesday, June 11, 2019, at 5:00 p.m. at Scottsdale City Hall, 3939 N. Drinkwater Boulevard, Scottsdale, Arizona.

CITY OF SCOTTSDALE
Summary of Property Tax Levy and Property Tax Rate Information
Fiscal Year 2019/2020
Schedule B

| | Fiscal Year 2018/2019 | Fiscal Year 2019/2020 |
|--|----------------------------------|----------------------------------|
| 1. Maximum allowable primary property tax levy. A.R.S. §42-17051(A) | 31,562,188 | 32,620,972 |
| 2. Amount received from primary property taxation in the current year in excess of the sum of that year's maximum allowable primary property tax levy. A.R.S. §42-17102(A)(18) | - | |
| 3. Property tax levy amounts | | |
| A. Primary property taxes | 31,878,855 | 32,868,471 |
| B. Secondary property taxes | 34,214,874 | 32,971,795 |
| C. Total property tax levy amounts | 66,093,729 | 65,840,266 |
| 4. Property taxes collected* | | |
| A. Primary property taxes | | |
| (1) 2018/2019 levy | 29,575,046 | |
| (2) Prior years' levies | 443,626 | |
| (3) Total primary property taxes | 30,018,672 | |
| B. Secondary property taxes | | |
| (1) 2018/2019 levy | 32,323,259 | |
| (2) Prior years' levies | 484,849 | |
| (3) Total secondary property taxes | 32,808,108 | |
| C. Total property taxes collected | 62,826,780 | |
| 5. Property tax rates | | |
| A. City tax rate | | |
| (1) Primary property tax rate | 0.5316 | 0.5198 |
| (2) Secondary property tax rate | 0.5705 | 0.5214 |
| (3) Total city tax rate | 1.1021 | 1.0412 |
| B. Special assessment district tax rates | | |

Secondary property tax rates - As of the date the tentative budget was prepared, the city was operating 355 special assessment districts (streetlight improvement districts) for which secondary property taxes are levied. For information pertaining to these special assessment districts and their tax rates, please contact the City of Scottsdale City Treasurer Division.

*Includes actual property taxes collected as of the date the proposed budget was prepared, plus estimated property tax collections for the remainder of the fiscal year.

FY 2019/20 Property Tax Levy and Rate

**Truth in Taxation Hearing & Public Hearing
June 11, 2019 City Council Meeting**

Property Tax – Net Assessed Value (\$ millions)

| | FY 18/19 | FY 19/20 | \$ Change | % Change |
|---------------------------------------|------------------|------------------|----------------------|---------------------|
| Net Assessed Value | \$5,997.0 | \$6,323.1 | \$326.1 | 5.4% |
| <i>Appreciation Existing Property</i> | | | <i>\$243.7</i> | <i>2.7%</i> |
| <i>New Property</i> | | | <i>\$82.5</i> | <i>35.1%</i> |

Rounding differences may occur.

Property Tax (\$ millions)

| Secondary | FY 18/19 | FY 19/20 | \$ Change | % Change |
|------------------|-----------------|-----------------|------------------|-----------------|
| Levy | \$34.2 | \$33.0 | - \$1.2 | - 3.6% |
| Rate | 0.5705 | 0.5214 | - 0.0491 | - \$8.6% |
| Primary | | | | |
| Levy | \$31.6 | \$32.6 | \$1.1 | 3.4% |
| Tort Claims | \$0.3 | \$0.3 | - \$0.1 | - 21.6% |
| Total Levy | \$31.9 | \$32.9 | \$1.0 | 3.1% |
| Rate | 0.5316 | 0.5198 | - 0.0118 | - 2.2% |
| Total | | | | |
| Levy | \$66.1 | \$65.8 | - \$0.3 | - 0.4% |
| Rate | 1.1021 | 1.0412 | - 0.0609 | - \$5.5% |

Rounding differences may occur.

Scottsdale Property Taxes



State Education - \$0.49



**Community
College
\$0.16**



**Maricopa
County
\$0.19**



**Special
Districts
\$0.06***



**City
Secondary
Tax
\$0.05**



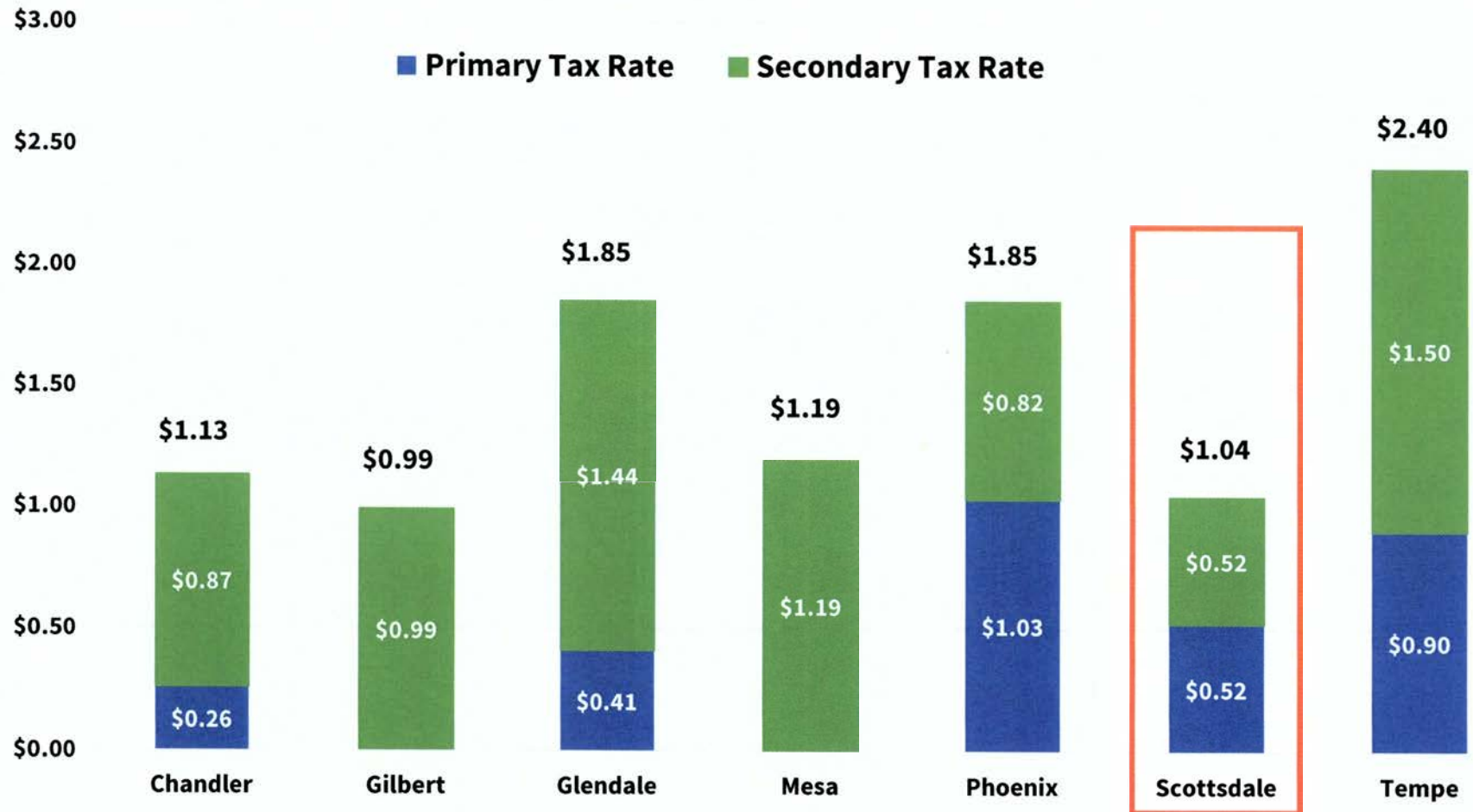
**City
Primary
Tax
\$0.05**

Primary property taxes are used by the City of Scottsdale to pay for city services and operational expenses and comprise about 11% of Scottsdale's General Fund operating budget.

Secondary property taxes based on limited assessed property values are restricted to pay debt service on voter-approved general obligation bonds for such things as parks, libraries, streets, and police/fire stations.

*Excludes street lighting districts, which vary by geographical location, types of lights, and City vs. HOA ownership.

Property Tax Rate Comparison



Action

1. Solicit public testimony on the proposed FY 2019/20 property tax levy.
2. By a roll call vote, approve a motion to levy the proposed property taxes, taxes to be assessed by ordinance on June 25, 2019.

FY 2019/20 **Property Tax** **Levy and Rate**

Truth in Taxation Hearing & Public Hearing
 June 11, 2019 City Council Meeting

1

Property Tax – Net Assessed Value (\$ millions)

| | FY 18/19 | FY 19/20 | \$ Change | % Change |
|---------------------------------------|------------------|------------------|----------------------|---------------------|
| Net Assessed Value | \$5,997.0 | \$6,323.1 | \$326.1 | 5.4% |
| <i>Appreciation Existing Property</i> | | | <i>\$243.7</i> | <i>2.7%</i> |
| <i>New Property</i> | | | <i>\$82.5</i> | <i>35.1%</i> |

Rounding differences may occur.

2

2

Property Tax (\$ millions)

| Secondary | FY 18/19 | FY 19/20 | \$ Change | % Change |
|------------------|-----------------|-----------------|------------------|-----------------|
| Levy | \$34.2 | \$33.0 | - \$1.2 | - 3.6% |
| Rate | 0.5705 | 0.5214 | - 0.0491 | - \$8.6% |
| Primary | | | | |
| Levy | \$31.6 | \$32.6 | \$1.1 | 3.4% |
| Tort Claims | \$0.3 | \$0.3 | - \$0.1 | - 21.6% |
| Total Levy | \$31.9 | \$32.9 | \$1.0 | 3.1% |
| Rate | 0.5316 | 0.5198 | - 0.0118 | - 2.2% |
| Total | | | | |
| Levy | \$66.1 | \$65.8 | - \$0.3 | - 0.4% |
| Rate | 1.1021 | 1.0412 | - 0.0609 | - \$5.5% |

Rounding differences may occur.

3

3

Scottsdale Property Taxes



State Education - \$0.49



Community College \$0.16



Maricopa County \$0.19



Special Districts \$0.06*



City Secondary Tax \$0.05

City Primary Tax \$0.05

Primary property taxes are used by the City of Scottsdale to pay for city services and operational expenses and comprise about 11% of Scottsdale's General Fund operating budget.

Secondary property taxes based on limited assessed property values are restricted to pay debt service on voter-approved general obligation bonds for such things as parks, libraries, streets, and police/fire stations.

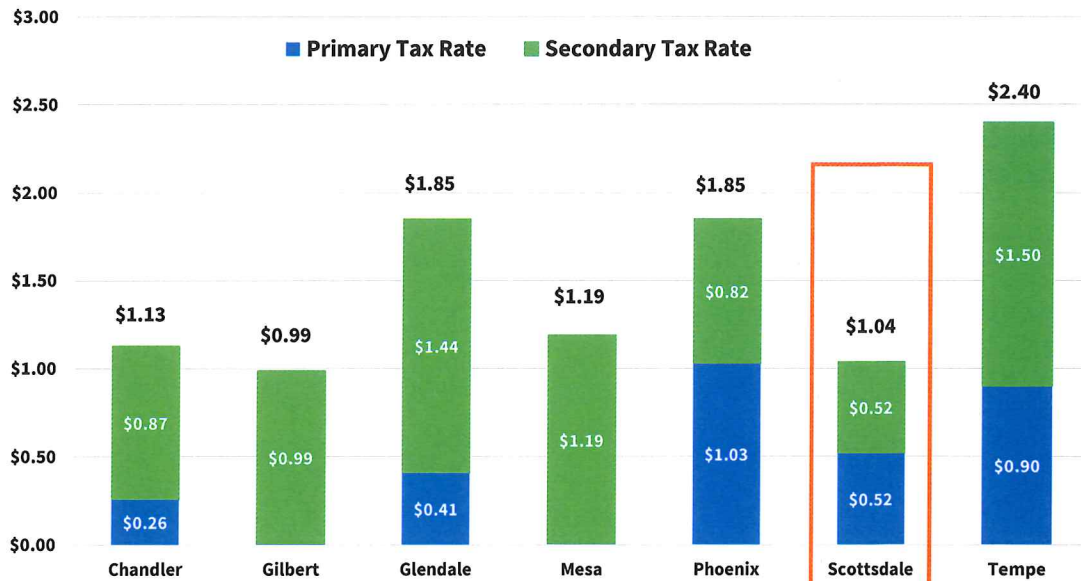
*Excludes street lighting districts, which vary by geographical location, types of lights, and City vs. HOA ownership.



4

4

Property Tax Rate Comparison



5

5

Action

1. Solicit public testimony on the proposed FY 2019/20 property tax levy.
2. By a roll call vote, approve a motion to levy the proposed property taxes, taxes to be assessed by ordinance on June 25, 2019.

6

6