



City Council Report

Date: July 5, 2016
To: City Council
Through: Mike Kennington, Chief Financial Officer
Candace Cannistraro, Management and Budget Director
From: Ryan Wimmer, Management and Budget Deputy Director
Subject: FY 2016-17 Secondary Property Tax Rate and Levy

Strategic Initiatives



Purpose and Recommendation

The purpose of this item is for the Mesa City Council to approve the levy of a secondary property tax on taxable property in the City of Mesa for FY 2016-17. The levy can only be used to pay principal and interest on debt service from General Obligation (G.O.) bonds issued to finance capital infrastructure in the City. The recommended FY 2016-17 secondary property tax levy of \$33,440,629 maintains the FY 2015-16 levy of \$33,439,694 (difference due to required rounding of the tax rate). The corresponding FY 2016-17 secondary property tax rate is \$1.1578 per \$100 of taxable property (decreased from \$1.2125 in FY 2015-16).

Background

Since FY 2009-10, the City of Mesa has levied a secondary property tax to pay for debt service on General Obligation bonds. In General Obligation bond elections in 2008, 2012, and 2013, ballot language approved by Mesa voters included specific language stating that the issuance of the bonds would result in a property tax increase sufficient to pay the annual debt service on the bonds.

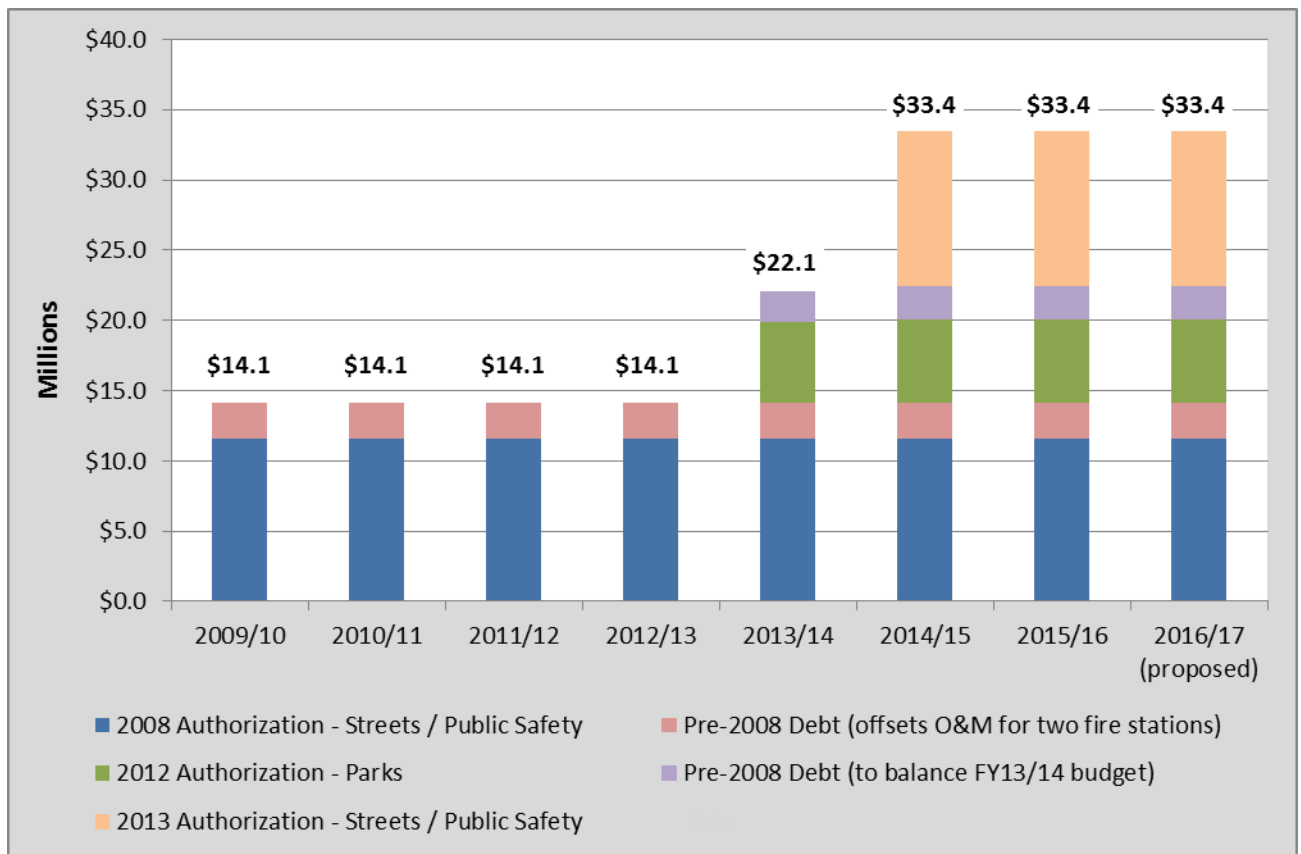
The City uses the tax levy (not the tax rate) to manage the secondary property tax. Unless new General Obligation bonds are authorized by voters, or the Council provides specific direction to alter the levy, the tax rate is adjusted to maintain the same levy from one year to the next. The amount of the levy is intended to fund the annual cost of debt service over the life of the bonds. State law (A.R.S. §35-458(A)) limits a secondary property tax levy to the amount of General Obligation principal and interest due, plus a reasonable delinquency factor.

The recommended FY 2016-17 property tax is levied to pay debt service payments for:

- Streets and Public Safety bonds approved by Mesa voters in 2008 and 2013
- Parks bonds approved by Mesa voters in 2012
- Court, Public Safety, Library, Parks, and Streets bonds issued before 2008. By funding this debt with property tax, the General Fund is freed up to pay for the operating costs for two new fire stations and other city operations.

A flat \$33.4 million property tax levy is recommended in FY 2016-17 to maintain the same levy amount as in FY 2015-16 (see Table 1 below).

Table 1. City of Mesa – Secondary Property Tax Levy by Purpose



Discussion

Property Value

The value of each property in the City is determined annually either by Maricopa County or by the State of Arizona. This property value used in a given fiscal year is based on market values from two to three years prior in order to allow time for review by the State Department of Revenue and for property owners to appeal a valuation. For example, the FY 2016-17 assessed value is based on property valuations from

mid-2013 to mid-2014 (see '2016 Tax Role Timeline' attachment published by the Maricopa County Assessor's Office). Property is assigned a full cash value (FCV) and a limited property value (LPV). Limited property value is restricted to a 5% maximum increase each year; full cash value does not have an annual increase restriction. A property's limited property value cannot exceed its full cash value.

The full cash value (based on market value) of property in Mesa increased by 11% in FY 2016-17. The net assessed value, which is the property value subject to taxation and based on the limited property value increased 4.7%. Therefore, the recommended FY 2016-17 secondary property tax rate is reduced by 4.5% in order to maintain the same \$33.4 million total levy (see Table 2 below).

Table 2. City of Mesa – Property Value, Rate, and Levy: FY15-16 to FY16-17

	FY15-16	FY16-17	\$ Change	% Change
Full Cash Value*	\$33.9 Billion	\$37.6 Billion	+\$3.7 Billion	+11.1%
Net Assessed Value* (taxable amount - based on Limited Property Value)	\$2.76 Billion	\$2.89 Billion	+\$0.13 Billion	+4.7%
Secondary Property Tax Rate (per \$100 of Net Assessed Value)	\$1.2125	\$1.1578	-\$0.0547	-4.5%
Secondary Property Tax Levy	\$33.4 Million	\$33.4 Million	\$0	0.0%

*Source: Maricopa County Assessor Preliminary (February) Tax Year 2015 and 2016 Property Value Abstracts

The secondary property tax levy is calculated by applying the secondary property tax rate to the net assessed value of property in the City. As the net assessed value of property increases or decreases, the City has historically adjusted the tax rate to maintain a steady levy.

Although, the full cash value of all City property increased by 11%, property valuation changes vary by classification of property (see Table 3 below).

Table 3. City of Mesa – Full Cash Value by Property Classification: FY15-16 to FY16-17

Class	Description	FY15-16	FY16-17	\$ Change	% Change
1	Commercial	\$ 5.3 B	\$ 6.2 B	+\$0.9 B	+16%
2	Land/Agriculture	\$ 4.8 B	\$ 5.3 B	+\$0.5 B	+12%
3	Primary Residential	\$16.2 B	\$17.4 B	+\$1.2 B	+ 8%
4	Rental	\$ 7.6 B	\$ 8.6 B	+\$1.0 B	+13%
Other	Miscellaneous	\$ 0.0 B	\$ 0.1 B	+\$0.1 B	+256%
TOTAL		\$33.9 B	\$37.6 B	+\$3.7 B	+11%

Source: Maricopa County Assessor Preliminary (February) Tax Year 2015 and 2016 Property Value Abstracts

Impact to Property Owners

The combined effect of higher property values and a lower property tax rate results in no net impact to the average property owner in the City in FY 2016-17. Owners of a median-valued residential property in Mesa would pay \$126 in city property tax.

Alternatives

The Council may choose to levy the recommended secondary property tax amount and rate for FY 2016-17, not levy a secondary property tax at all, or levy an amount and rate at any level less than the proposed levy. A reduction to the recommended levy and rate would necessitate the payment of General Obligation debt service with the General Fund, requiring commensurate reductions to General Fund services provided by the City (police, fire and medical, library, parks, etc.). The levy cannot be higher than the proposed amount because secondary property tax can only be used to pay for General Obligation debt service, and the recommended levy is sufficient to fund all estimated General Obligation debt service due in FY 2016-17.

Fiscal Impact

Adopting the recommended secondary property tax levy and rate would allow the City to meet its General Obligation debt service obligations as planned. The levy is a critical piece in maintaining the fiscal stability of the City.