



City Council Report

Date: June 26, 2017
To: City Council
Through: Michael Kennington, Chief Financial Officer
Candace Cannistraro, Management and Budget Director
From: Ryan Wimmer, Management and Budget Deputy Director
Subject: FY 2017-18 Secondary Property Tax Rate and Levy

Purpose and Recommendation

This action approves the levy of a secondary property tax on taxable property in the City of Mesa for FY 2017-18. 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 2017-18 secondary property tax levy of \$33,440,262 maintains the FY 2016-17 levy of \$33,440,629 (the difference is due to required rounding of the tax rate). The corresponding FY 2017-18 secondary property tax rate is \$1.0968 per \$100 of taxable property (a 5.3% reduction from the FY 2016-17 rate of \$1.1578).

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 authorizations approved by Mesa voters in 2008, 2012, and 2013 elections, ballot language stated 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 fiscal year to the next. The amount of the levy is intended to fund the annual cost of debt service over the life of the authorized bonds. State law ([A.R.S. §35-458\(A\)](#)) limits the amount of a secondary property tax levy to the projected General Obligation principal and interest due, plus a reasonable delinquency factor.

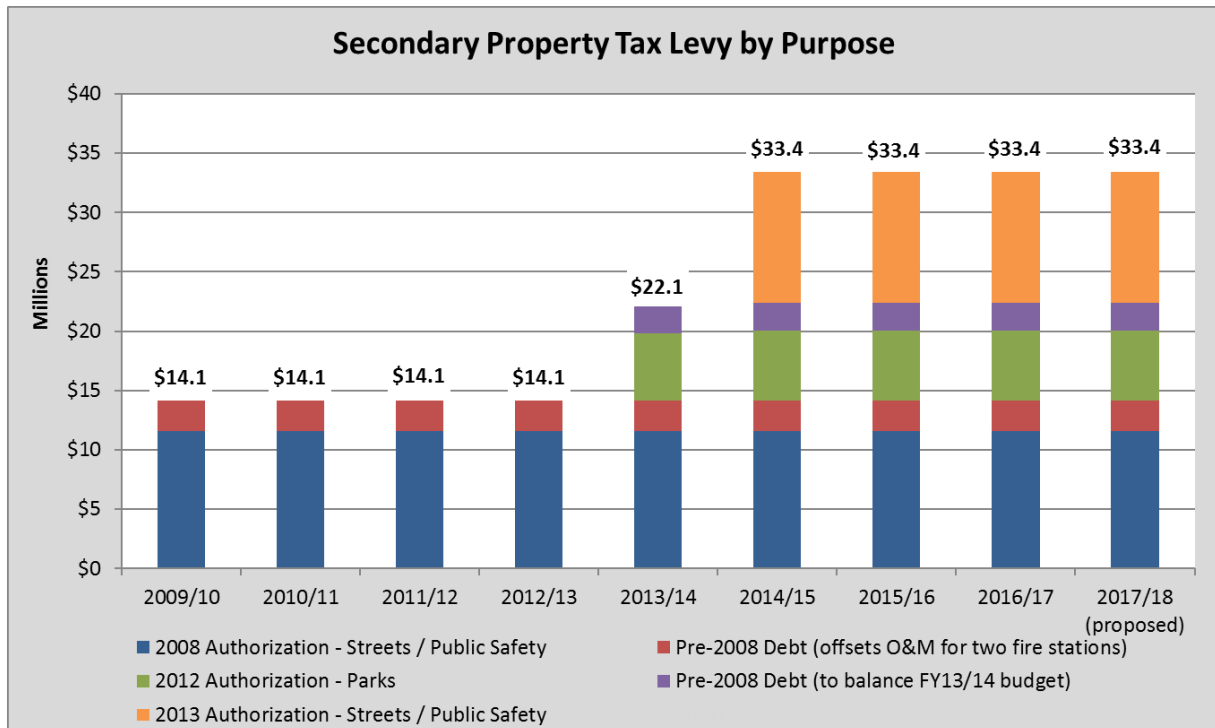
The recommended FY 2017-18 property tax is levied to pay debt service payments for:

- 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

paying for this debt with secondary property tax, the General Fund is freed up to pay the operating costs for two new fire stations (which opened in FY 2009-10 and FY 2012-13) as well as other City operations.

A flat \$33.4 million property tax levy is recommended in FY 2017-18 to maintain the same levy as in FY 2016-17 (see Chart 1 below).

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



Discussion

Property Value

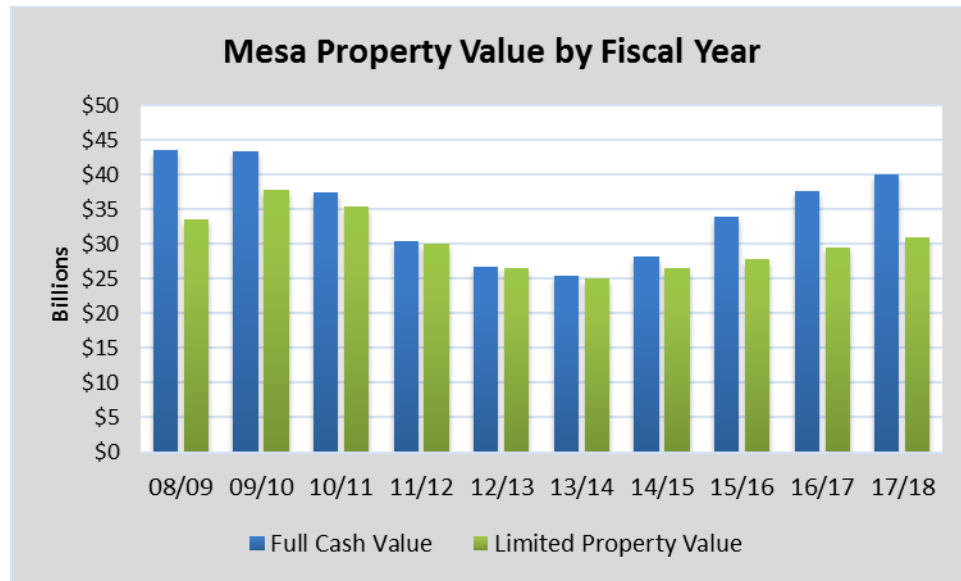
Arizona property owners pay property tax based on the value (*ad valorem*) of the property. The value of each property in the City is determined annually by either Maricopa County or the State of Arizona.

This property value used in one fiscal year is based on market values from two to three years prior to allow time for the State Department of Revenue to review the values and for valuation appeals by property owners to be processed. For example, the assessed value used in FY 2017-18 is based on property valuations from mid-2014 to mid-2015 (see '2017 Tax Role Timeline' attachment published by the Maricopa County Assessor's Office).

Each parcel of property in the State of Arizona is assigned a full cash value (FCV), which is based on market value, and a limited property value (LPV), which is used for property tax purposes. An increase in limited property value is restricted to a maximum of 5% 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 use of limited property value for property tax purposes moderates the short-term impact of rapid property value increases. Chart 2 below shows both the full cash value and limited property values in Mesa for the past 10 years.

Chart 2. City of Mesa – Property Value by Fiscal Year



Although the full cash value of all property in the City of Mesa increased by 6% in FY 2017-18, property valuation changes vary by classification of property (see Table 1 below).

Table 1. City of Mesa Full Cash Value by Property Class: FY16-17 to FY17-18

Class	Description	FY16-17	FY17-18	\$ Change	% Change
1	Commercial	\$ 6.2 B	\$ 6.7 B	+\$0.5 B	+8%
2	Land/Agriculture	\$ 5.3 B	\$ 5.4 B	+\$0.1 B	+1%
3	Primary Residential	\$17.4 B	\$18.4 B	+\$1.0 B	+6%
4	Rental	\$ 8.6 B	\$ 9.3 B	+\$0.7 B	+9%
Other	Miscellaneous	\$ 0.1 B	\$ 0.2 B	+\$0.1 B	+35%
TOTAL		\$37.6 B	\$40.0 B	+\$2.4 B	+6%

Taxable Property

The limited property value (LPV) is used for property tax purposes. An assessment ratio is applied to the LPV based on property classification to determine a property's "assessed value". For example, the assessment ratio is 10% for residential property, 18% for commercial property, and 15% for vacant land.

Exempt property (not-for-profit, governmental, etc.) is netted (subtracted) out of the assessed value, resulting in a property's "net assessed value" (NAV). Net assessed value is the value of the property that is subject to taxation. In FY 2017-18, the net assessed (taxable) value of property in the City of Mesa increased by 5.6% (3.0% due to appreciation of existing property, 2.6% from new construction).

Since the value of taxable property in the City increased by 5.6% for FY2017-18, the recommended secondary property tax rate is reduced by 5.3% to maintain the same \$33.4 million total levy (see Table 2 below).

Table 2. City of Mesa Property Value, Rate, and Levy: FY16-17 to FY17-18

	FY16-17	FY17-18	\$ Change	% Change
Net Assessed Value (taxable amount - based on Limited Property Value)	\$2.89 Billion	\$3.05 Billion	+\$0.16 Billion	+5.6%
Secondary Property Tax Rate (per \$100 of Net Assessed Value)	\$1.1578	\$1.0968	-\$0.0610	-5.3%
Secondary Property Tax Levy (Net Assessed Value * Tax Rate)	\$33.4 Million	\$33.4 Million	\$0	0.0%

The secondary property tax levy is determined by applying the secondary property tax rate to the net assessed value of property in the City.

Impact to Property Owners

The combined impact of higher property values and a lower property tax rate in FY 2017-18 would result in at least a small decrease in the amount of City property tax owed by existing property owners. The owner of a median-valued residential property in Mesa would pay \$131 in City property tax.

Alternatives

The Council may choose to levy the recommended secondary property tax amount and rate for FY 2017-18, 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, which would draw down General Fund reserves or require commensurate reductions to General Fund services provided by the City (police, fire and medical, library, parks, etc.).

The property tax levy cannot be greater 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 General Obligation debt service due in FY 2017-18.

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.