City Council Report

Date: June 17, 2024

To: City Council

Through: Michael Kennington, Deputy City Manager/Chief Financial Officer

From: Irma Ashworth, Finance Director

Subject: Fiscal Year 2024-25 Secondary Property Tax Levy

Purpose

The purpose of this report is to provide information on the proposed City secondary property tax levy on taxable property for fiscal year (FY) 2024-25.

Levy	Rate
$42,006,022	**$0.8582** per $100 of taxable value

Highlights

- The $42.0 million levy is an increase of 8.4% due to the increase in Taxable Property Values.
- The rate is unchanged from the prior year.
- The median-value residential property owner would pay $152 for the year.

The table below compares the proposed City of Mesa levy for FY 2024-25 with the prior year.

Secondary Property Tax Levy and Rate: FY 2023-24 to FY 2024-25

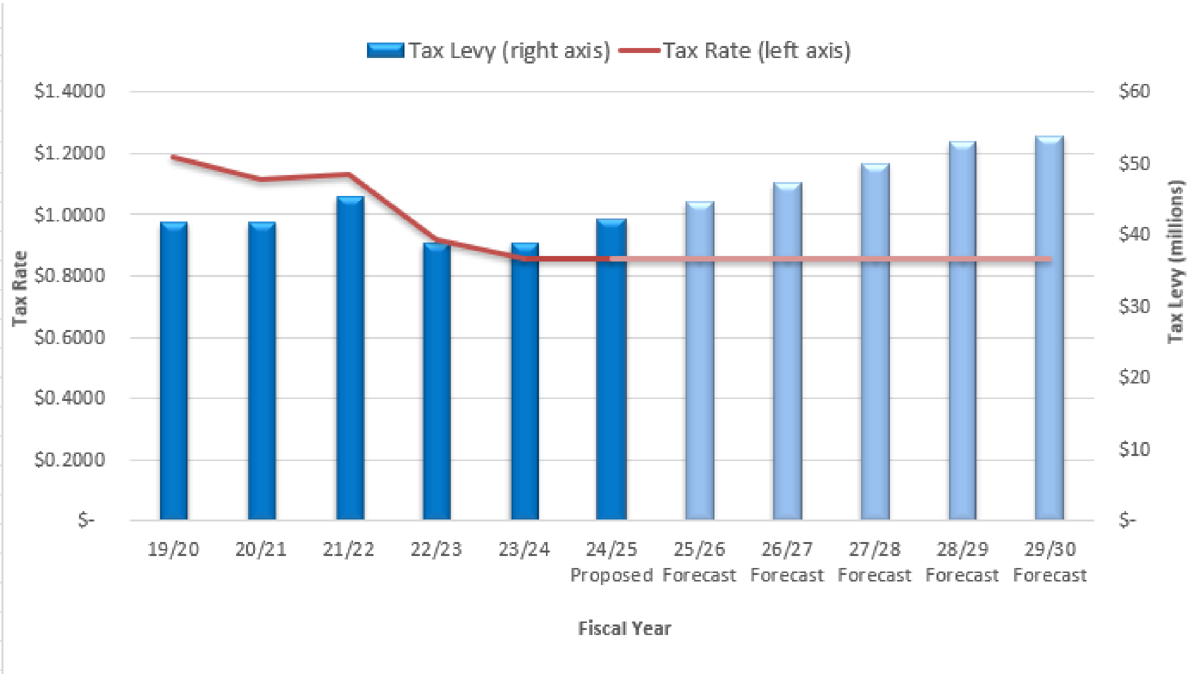
	FY23/24	FY24/25 Proposed	$ Change	% Change
Taxable Property Value	$4.5 billion	$4.9 billion	+$0.4 billion	+8.4%
Tax Rate (per $100 of taxable property value)	$0.8582	**$0.8582**	$0.00	0.0%
Tax Levy (rounded)	$38.8 million	**$42.0 million**	+$3.2 million	+8.4%

Annual Cost to Median Homeowner	$145	$152	+$7	+5.0%

Historical and Forecasted Levy and Rate

The chart below shows the City's recent and forecasted secondary property tax levy and tax rate.

Historical and Forecasted Tax Levy and Rate



FY 2024-25 Proposed Tax Levy

- The proposed levy fully funds general obligation debt service due in FY 2024-25 (including payments from an anticipated bond sale in Spring 2025).
- $298 million in bonds authorized in the following elections have yet to be issued:
  - 2018 (public safety, parks and culture, library)
  - 2020 (transportation)
  - 2022 (public safety)
- The levy is projected to increase in future years as the remaining authorized bonds are issued.

Projects Funded by Property Tax Levy

Since 2008, ballot language for general obligation bond election questions approved by Mesa voters has 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 proposed FY 2024-25 property tax levy pays for debt payments for bond elections authorized by voters since 2008.

Background

Property Values

Arizona property owners pay property tax in proportion to the value (ad valorem) of property. The property value used for property tax each year is based on market values from two to three years prior to allow time for review and appeal. The property values used for FY 2024-25 are based on valuations from 2020 to 2022.

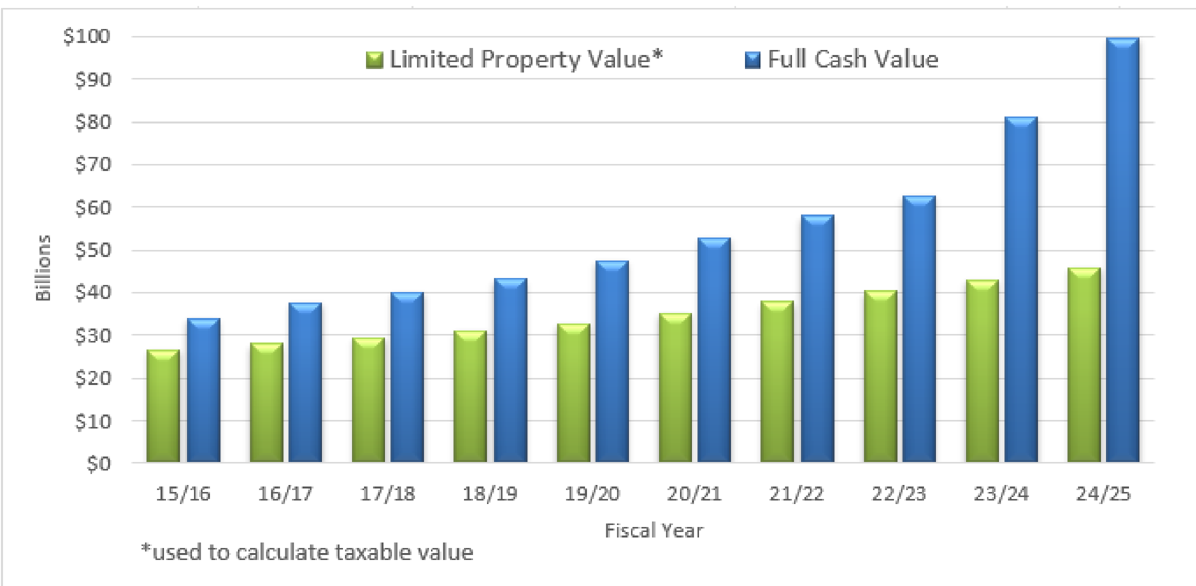
Each property in Arizona is given two values:

- **Full Cash Value (FCV)** – based on market value (a percentage of comparable sale value)
- **Limited Property Value (LPV)** – used for property tax purposes, the value is increased 5% from the prior year but, for most properties, this value cannot exceed full cash value (FCV)

The use of limited property value (LPV) for property tax purposes is intended to moderate the short-term impact of rapid property value increases.

The chart below shows both the full cash value (FCV) and limited property values (LPV) in Mesa for the past decade.

Total Property Value by Fiscal Year (City of Mesa)



The FY 2024-25 full cash value (FCV) of all property in the City increased by 23%.

FY 2023-24 Median Residential Property Values (City of Mesa)

Property Value	Median Value	Description
Full Cash Value (FCV)	$382,700	a percentage of comparable sale value
Limited Property Value (LPV)	$177,213	used to calculate taxable value (increases 5% each year but cannot exceed FCV)

Taxable Property

Limited property value (LPV) is the starting value used to determine the taxable value of a property. An assessment ratio, based on property classification, is applied to a limited property value (LPV) to determine a property's "assessed value" (AV).

The assessment ratios for the three largest property classes are shown below.

Assessment Ratios for Largest Property Classifications

Property Classification	Assessment Ratio
Residential	10%
Commercial	16.5%
Agricultural/Vacant	15%

Exempt property (not-for-profit, governmental, etc.) is netted (subtracted) out of the assessed value (AV), resulting in a property's "net assessed value" (NAV). Net assessed value (NAV) derived from limited property value (LPV) is the taxable value.

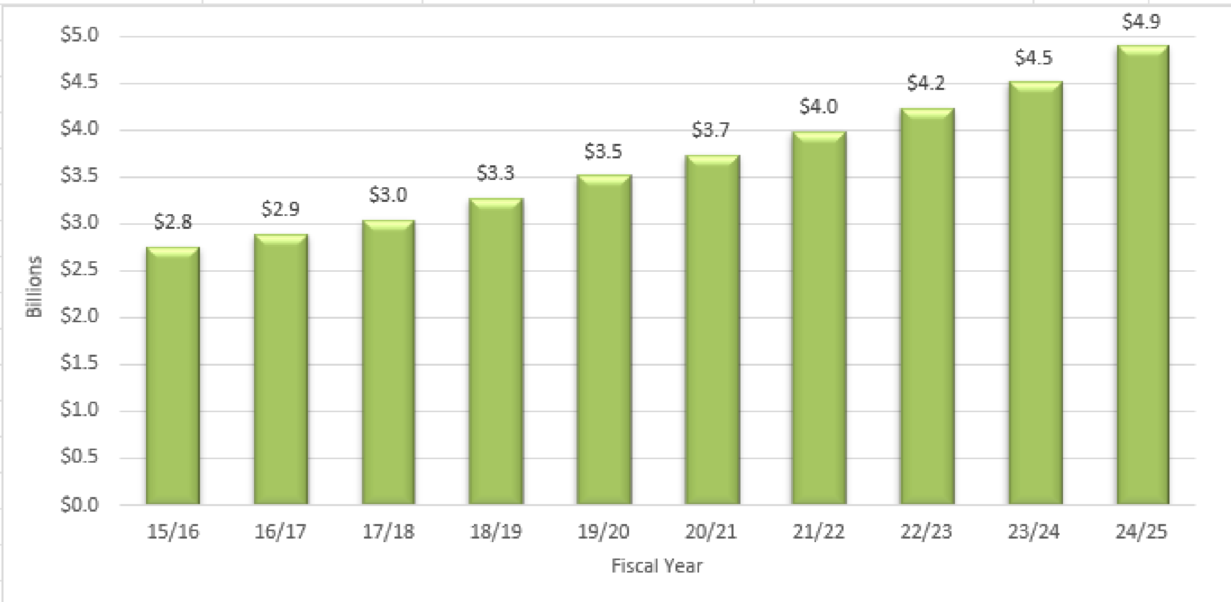
See the taxable property value calculation below.

Taxable Property Value Calculation

Limited Property Value (LPV)
x
Assessment Ratio (10% for residential)
=
Assessed Value (AV)
–
Exemptions
=
Net Assessed Value (NAV) – **taxable value**

The taxable value of property in Mesa is shown for recent fiscal years below.

Taxable Value by Fiscal Year (City of Mesa)



New Property

New property added to the tax rolls (construction of houses, buildings, and equipment, and annexation of unincorporated areas) increases the tax base. Spreading the tax levy across a larger tax base results in a lower tax rate.

Taxable Value: FY23-24 to FY24-25 (City of Mesa)

	$ Change	**% Change**
Appreciation of Existing Property	+$193 million	+4.3%
New Property	+$185 million	+4.1%
Total	**+$378 million**	**+8.4%**

Discussion

Property Tax Calculation

A property's taxable value is provided annually by the Maricopa County Assessor's Office. The property tax rate is set by the City as a dollar amount per $100 of taxable value. The property tax levy is the dollar amount of property tax owed and is calculated as shown below:

taxable property value * tax rate = tax levy

Alternatives

The Council may levy a secondary property tax amount and rate other than as proposed. A change to the proposed levy and rate would necessitate:

- restructuring of planned debt issuances, and/or
- payment of debt service from the General Fund, which would draw down reserves or require spending reductions in other services paid for by the General Fund (police, fire/medical, library, parks, etc.).

Fiscal Impact

Secondary property tax levy revenue contributes to maintenance of the City's fiscal stability. Adopting the proposed secondary property tax levy and rate would allow the City to meet its general obligation debt service obligations as planned.