



City Council Report

Date: June 6, 2022
To: City Council
Through: Michael Kennington, Deputy City Manager/Chief Financial Officer
Irma Ashworth, Finance Director
From: Ryan Wimmer, Treasurer
Subject: Fiscal Year 2022-23 Secondary Property Tax Levy

Purpose

The purpose of this report is to provide information on the City's proposed secondary property tax on taxable property in the City of Mesa for fiscal year (FY) 2022-23.

The proposed secondary property tax levy and rate are:

Levy = \$38,767,410

Rate = \$0.9157 per \$100 of taxable value

The proposed levy is \$6.4 million (14%) less than the prior year.

The corresponding secondary property tax rate is 19% less than the prior year.

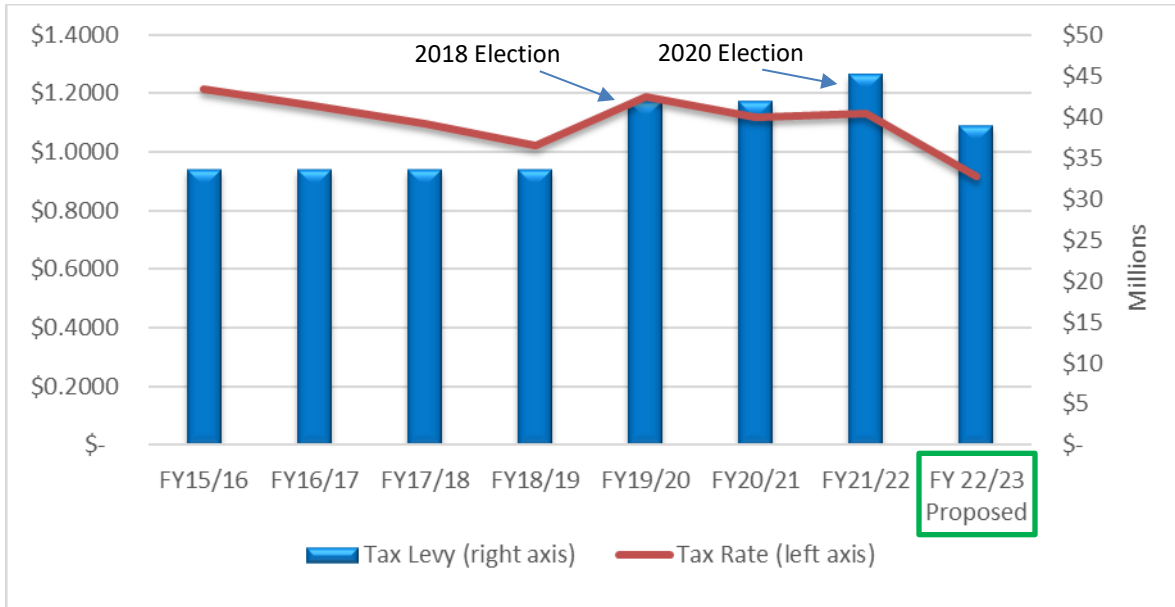
The owner of the City property with the median taxable value of \$159,433 (\$301,951 sale value) would pay \$146 for the year in City property tax, \$25 less than in the prior year (see Figure 1 below).

Figure 1. Mesa Secondary Property Tax Levy and Rate: FY21-22 to FY22-23

	FY21/22	FY22/23 Proposed	\$ Change	% Change
Taxable Value	\$3.99 billion	\$4.23 billion	+\$0.24 billion	+6%
Tax Levy	\$45.2 million	\$38.8 million	-\$6.4 million	-14%
Tax Rate	\$1.1319	\$0.9157	-\$0.2162	-19%
Annual Cost to Median Homeowner	\$171	\$146	-\$25	-15%

An eight-year comparison of the City's secondary property tax levy and tax rate is shown in Figure 2 below.

Figure 2. Eight-Year Comparison of Tax Levy and Tax Rate



The tax levy was adjusted in FY 2019-20 for the impact of general obligation bonds authorized in 2018 and adjusted in FY 2021-22 for the impact of the 2020 bond approval.

FY 2022/23 Proposed Tax Levy

For FY 2021/22, the City levied a secondary property tax levy at a level sufficient to fund all payments on bonds authorized by voters in 2018 and 2020.

The proposed FY 2022/23 levy amount would fund annual debt payments for several years but may need to be increased once all bonds authorized by voters in 2018 and 2020 have been sold. The City has a combined \$231 million in authorized bonds remaining to issue from the 2018 (public safety, parks and culture, library) and 2020 (transportation) bond elections.

The FY 2022/23 proposed levy is less than the prior year due to:

1. Timeframe – the levy is better aligned with the progress of the City’s bond programs authorized by voters in 2018 and 2020.
 - a. The estimated timeframe to complete these bond programs is 6-8 years instead of 4-5 years as assumed originally.
 - b. 31% of bonds authorized by voters in 2018 have been sold in 4 years
 - c. 3% of bonds authorized by voters in 2020 have been sold in 2 years
2. Savings from conservative financial assumptions regarding interest rates, property tax payment delinquency rates, etc.
3. A healthy reserve balance

In addition, the following factors generally allow for savings in the levy and/or rate:

- new property being added to the tax rolls,
- bond refunding (refinancing) savings,
- low borrowing costs due to the City's general obligation debt being rated AAA (the highest rating possible) in 2020

Projects Funded by Secondary Property Tax Revenue

The proposed FY 2022-23 property tax funds debt service payments for the following:

- Street/Transportation bonds approved by Mesa voters in 2008, 2013, and 2020
- Public Safety bonds approved by Mesa voters in 2008, 2013, and 2018
- Parks and Culture (including Library) bonds approved by Mesa voters in 2012 and 2018
- Court, Public Safety, Library, Parks, and Streets bonds issued before 2008. The City Council previously approved the use of secondary property tax revenue to pay debt service on bonds approved by Mesa voters prior to 2008 to free up General Fund revenues to pay for City operating costs including two City fire stations which opened in FY 2009-10 and FY 2012-13.

Property Value Increase

Of the 6% increase in taxable property value in FY 2022-23, 4% was due to appreciation of existing property and 2% from new construction (see Figure 3 below).

Figure 3. Taxable Value in Mesa: FY21-22 to FY22-23

	\$ Change	% Change
Appreciation of Existing Property	+\$158 million	+4.0%
New Property	+\$ 86 million	+2.1%
Total	+\$244 million	+6.1%

New property consists of annexations of unincorporated areas within the City and construction of homes, buildings, equipment, etc. that add to the base of property value.

Background

Types of Property Tax

There are two types of property tax in Arizona: primary property tax and secondary property tax.

Figure 4 below describes how cities are permitted to use the two types of property tax.

Figure 4. Types of Property Tax for Arizona Cities

Type	Permitted Use
Primary	General city operations
Secondary	Debt service on general obligation bonds approved by voters

The City of Mesa does not currently levy a primary property tax.

Management of the Tax Levy

Since 2008, ballot language for general obligation bond authorizations 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 amount of the levy is intended to fund the annual cost of debt service. State law ([A.R.S. §35-458\(A\)](#)) limits the amount of a secondary property tax levy to projected general obligation debt service due, plus a reasonable delinquency factor. Accumulated fund balance to pay debt service is limited to 10% of the current fiscal year debt service payment.

Discussion

Property Tax Calculation

Property tax is calculated as follows:

$$\text{property value} * \text{tax rate} = \text{tax levy}$$

A property's value is determined annually by either the County Assessor or State Department of Revenue. The property tax rate is set by governing bodies as a dollar amount per \$100 of taxable value. The property tax levy is the property value multiplied by the tax rate and equates to the dollar amount of property tax owed.

Property Values Assigned

Arizona property owners pay property tax in proportion to the value (ad valorem) of the

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 appeals. For example, the value used for FY 2022-23 is based on valuations from mid-2019 to mid-2020.

Each parcel of property in Arizona is given a full cash value (FCV), which is based on the market value. Each parcel also has a limited property value (LPV), which is used for property tax purposes.

The full cash value (FCV) of a property is determined annually and does not have an annual increase restriction. For most property types, limited property value (LPV) is increased by 5% each year but cannot exceed the full cash value (FCV). For all property types, limited property value (LPV) cannot exceed full cash value (FCV).

FY 2022-23 median values of a Mesa residential property are shown in Figure 5 below.

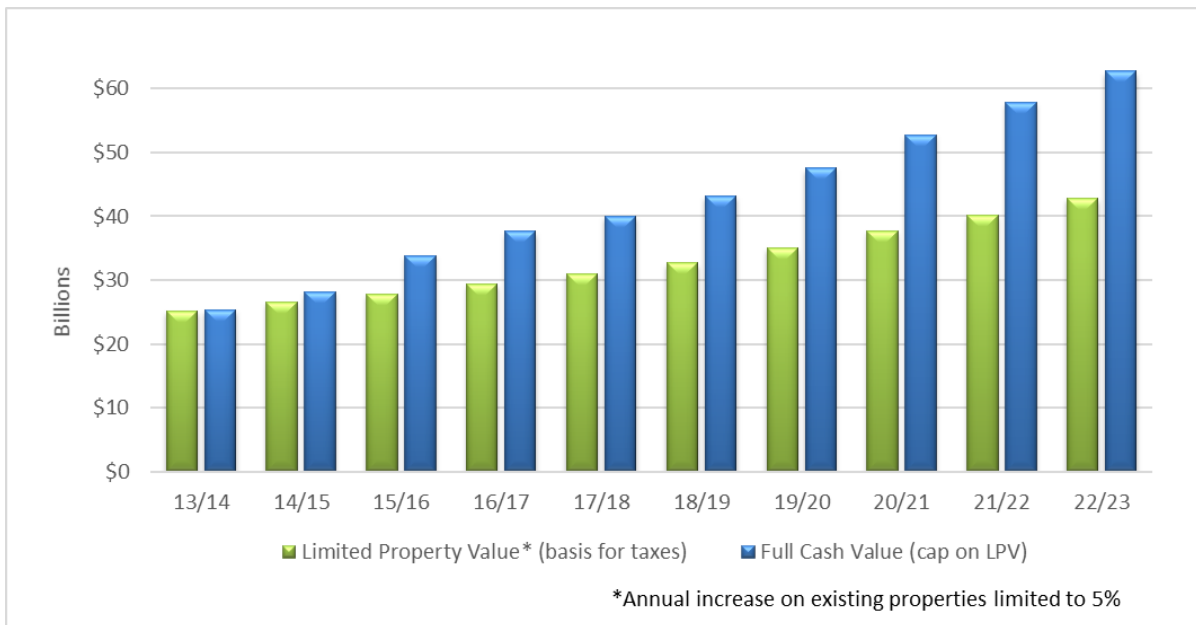
Figure 5. City of Mesa FY 2022-23 – Median Property Values

Property Value	Median Value	Description
Limited Property Value (LPV)	\$159,433	Taxable value; limited to 5% annual growth
Full Cash Value (FCV)	\$247,600	Upper limit on taxable value; a percentage of sale value
Sale Value (estimate)	\$301,951	Estimated sale price (when valued in 2019 or 2020)

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

Figure 6 below shows both the full cash value (FCV) and limited property values (LPV) in Mesa for the past decade.

Figure 6. City of Mesa – Property Value by Fiscal Year



The FY 2022/23 full cash value (FCV) of all property in the City increased by 8%.

Taxable Property Calculation

The limited property value (LPV) is the starting point in calculating the taxable value of a property. An assessment ratio based on property classification is applied to the limited property value (LPV) to determine a property's "assessed value" (AV). The assessment ratio for the three largest property classifications are shown in Figure 7 below.

Figure 7. Assessment Ratios for Largest Property Classifications

Property Classification	Assessment Ratio
Residential	10%
Commercial	17.5%
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) calculated from limited property value (LPV) is the value of the property that is taxable.

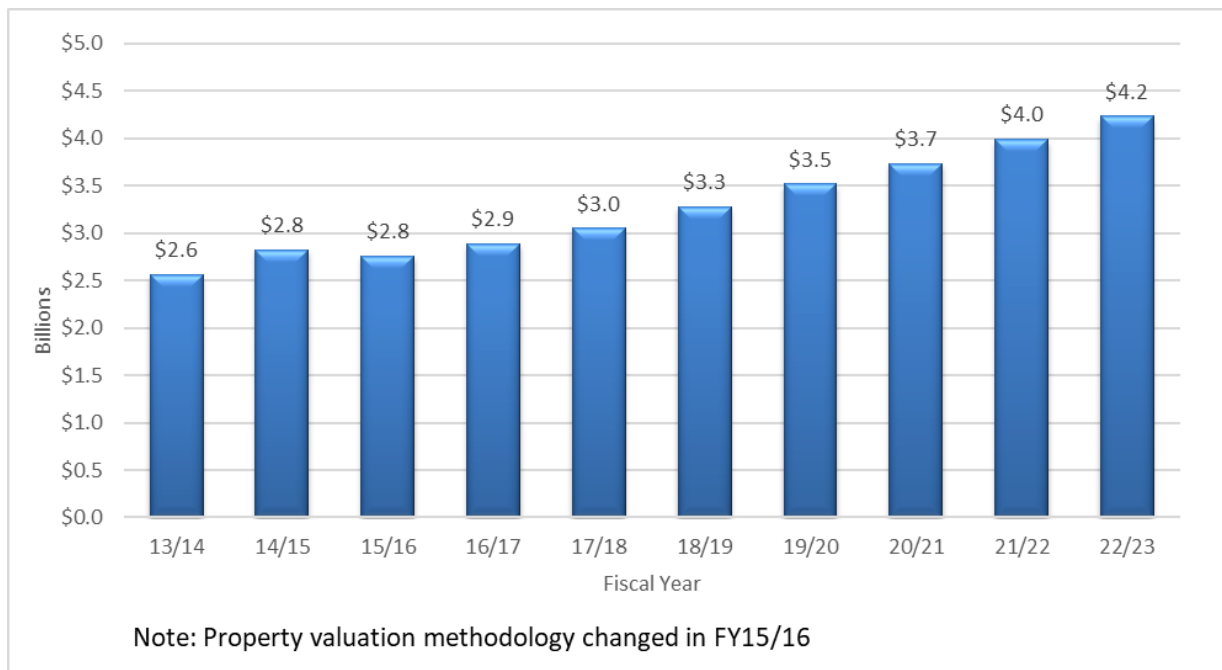
See the taxable property value calculation in Figure 8 below.

Figure 8. Taxable Property Value Calculation

$$\begin{array}{l} \text{Limited Property Value (LPV)} \\ \times \\ \text{Assessment Ratio (10\% for residential)} \\ \hline = \\ \text{Assessed Value (AV)} \\ - \\ \text{Exemptions} \\ \hline = \\ \text{Net Assessed Value (NAV) – taxable value} \end{array}$$

The taxable value of property in Mesa is shown for recent fiscal years in Figure 9 below.

Figure 9. City of Mesa – Taxable Value by Fiscal Year



Alternatives

The Council may choose not to levy a secondary property tax or to levy any rate and amount less than proposed. A reduction to the proposed levy and rate would necessitate the payment of general obligation debt service with the General Fund,

which would draw down reserves or require reductions to General Fund services provided by the City (police, fire/medical, library, parks, etc.).

The property tax levy cannot be greater than proposed because secondary property tax can only be used to pay for general obligation debt service and the proposed levy is sufficient to fully fund general obligation debt service due in FY 2022-23.

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.