



City Council Report

Date: June 1, 2020
To: City Council
Through: Michael Kennington, Deputy City Manager/Chief Financial Officer
Irma Ashworth, Finance Director
From: Ryan Wimmer, Treasurer
Subject: Fiscal Year 2020-21 Secondary Property Tax Rate and Levy

Purpose

This action approves the levy of a secondary property tax on taxable property in the City of Mesa for Fiscal Year (FY) 2020-21. The levy can only be used to pay principal and interest on debt service from general obligation bonds issued to finance capital infrastructure.

The proposed FY 2020-21 secondary property tax levy and tax rate are:

Levy = \$41,737,203

Rate = \$1.1171 per \$100 of taxable value

Since the value of taxable property in the City increased by 6% in FY 2020-21, the proposed secondary property tax rate is reduced by 6% to maintain a \$41.7 million total levy. The annual impact to the typical Mesa homeowner remains at \$160 (see Figure 1 below).

Figure 1. Mesa Secondary Property Tax Levy and Rate: FY19-20 to FY20-21

	FY19-20	FY 20-21 Proposed	\$ Change	% Change
Secondary Property Tax Levy (Taxable Value * Tax Rate)	\$41.7 million	\$41.7 million	\$0	0%
Secondary Property Tax Rate (per \$100 of Taxable Value)	\$1.1870	\$1.1171	-\$0.0699	-6%
Annual Cost to Median Homeowner	\$160	\$160	\$0	0%

Of the 6.3% increase in taxable property value in FY 2020-21, 3.6% was due to appreciation of existing property and 2.7% from new construction (see Figure 2 below).

Figure 2. City of Mesa Net Assessed Value (NAV): FY19-20 to FY20-21

	FY19-20	FY20-21	\$ Change	% Change
Net Assessed Value (NAV) (taxable value)	\$3.52 Billion	\$3.74 Billion	+\$220 Million	+6.3%
Appreciation of Existing Property			+\$126 Million	+3.6%
New Property			+ \$94 Million	+2.7%

New property represents construction of homes, buildings, equipment, etc. that add to the base of property value in the City.

Background

Projects Funded by Secondary Property Tax Revenue

The proposed FY 2020-21 property tax is levied to pay debt service payments for:

- Streets bonds approved by Mesa voters in 2008 and 2013
- 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 has previously approved the use of secondary property tax revenue to pay debt service on bonds approved by Mesa voters prior to 2008 in order 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.

History of Secondary Property Tax

Since FY 2009-10, the City of Mesa has levied a secondary property tax to pay for debt service on general obligation bonds. Unless new general obligation bonds are authorized by voters, or the Council provides direction to alter the levy, the tax rate is adjusted to maintain the same levy from one fiscal year to the next. The City's practice is to fully adjust the levy in the fiscal year following a successful bond election.

The City uses the tax levy (not the tax rate) to manage secondary property tax. 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. Accumulated fund balance to pay general obligation debt service is limited to 10% of the current fiscal year debt service payment.

In general obligation bond authorizations approved by Mesa voters in the 2008, 2012,

2013, and 2018 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 of Mesa does not currently levy a primary property tax.

Discussion

Property Tax Calculation

Property tax is calculated as follows:

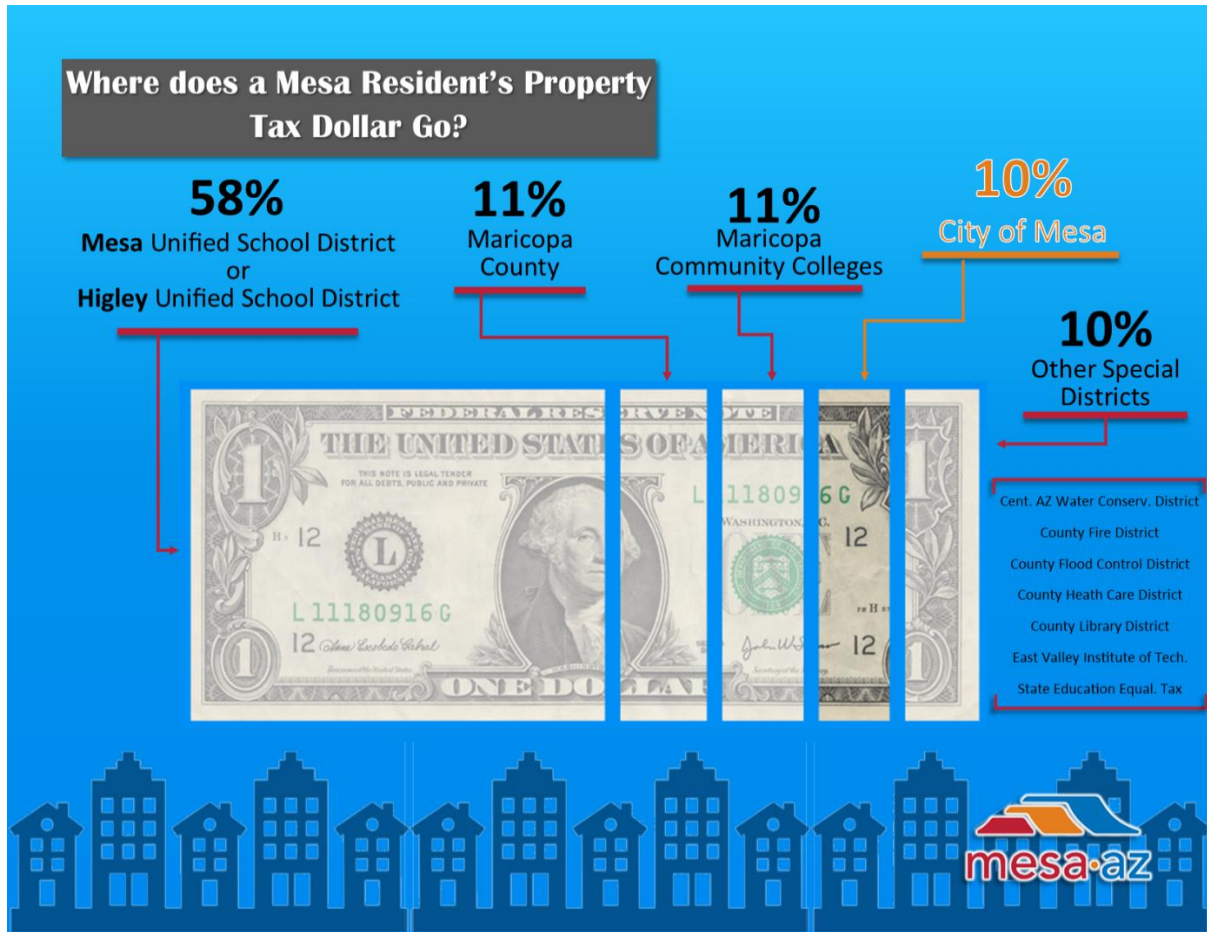
$$\text{property value} * \text{tax rate} = \text{tax levy}$$

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 is the dollar amount of property tax owed.

Relative Size of Mesa's Property Tax Levy

City property tax represents between 7% and 11% of a Mesa resident's total property tax bill (depending on the area of the City). The largest portion of a resident's tax bill (from 39% to 59%) is paid to public school districts. Figure 3 below shows how the property tax dollar of a resident in the Mesa and Higley public school districts is divided by various taxing jurisdictions. Mesa residents also live in the Gilbert, Queen Creek, and Tempe public school districts. A graphic for each public school district (as well as two additional graphics for residents of the Cadence and Eastmark community facilities districts) is attached to this report.

Figure 3: Property Tax Dollar of Mesa Resident (Mesa & Higley School Districts)



Property Value

Arizona property owners pay property tax based in proportion to the value (ad valorem) of the property. The property value used for one fiscal year is based on market values from around two years prior to allow time for review and appeals. For example, the assessed value used in FY 2020-21 is based on property valuations from mid-2017 to mid-2018.

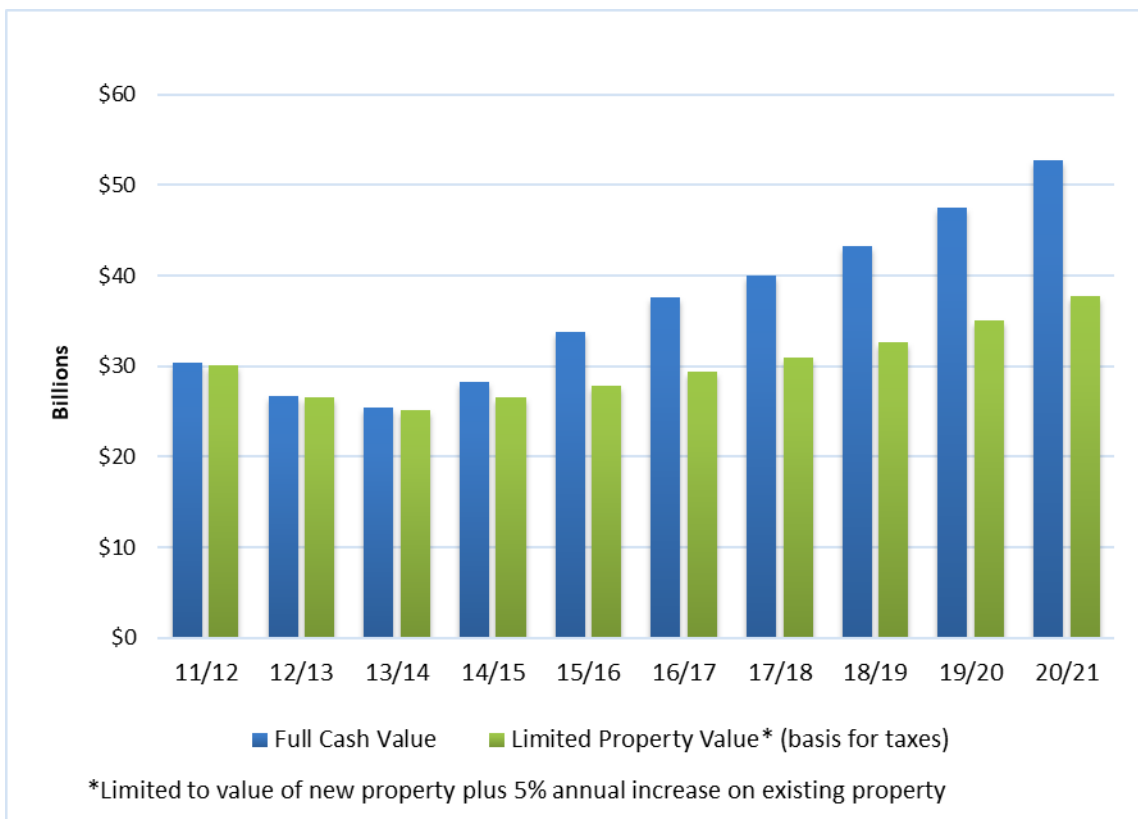
Each parcel of property in the State of Arizona is given a full cash value (FCV), which is based on the market value. Each parcel also has a limited property value (LPV), which is used for property tax purposes.

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

The use of limited property value (LPV) for property tax purposes moderates the short-

term impact of rapid property value increases. Figure 4 below shows both the full cash value (FCV) and limited property values (LPV) in Mesa for the past decade.

Figure 4. City of Mesa – Property Value by Fiscal Year



The full cash value of property in the City used for FY 2020-21 increased by 11%. Property valuation changes vary by classification of property (see Figure 5 below).

Figure 5. City of Mesa Full Cash Value by Property Class: FY19-20 to FY20-21

Class	Description	FY19-20	FY20-21	\$ Change	% Change
1	Commercial	\$ 8.0 B	\$ 8.7 B	+\$0.7 B	+10%
2	Land/Agriculture	\$ 5.9 B	\$ 6.3 B	+\$0.4 B	+ 7%
3	Primary Residential	\$21.9 B	\$24.5 B	+\$2.6 B	+12%
4	Rental	\$11.4 B	\$12.7 B	+\$1.3 B	+12%
Other	Miscellaneous	\$ 0.4 B	\$ 0.5 B	+\$0.1 B	+29%
TOTAL		\$47.5 B	\$52.8 B	+\$5.3 B	+11%

Taxable Property

The limited property value (LPV) is used as a starting point to calculate the taxable value of a property, called net assessed value (NAV). An assessment ratio is applied

to the limited property value (LPV) based on property classification to determine a property’s “assessed value”. The assessment ratio is 10% for residential property, 18% for commercial property, and 15% for vacant land.

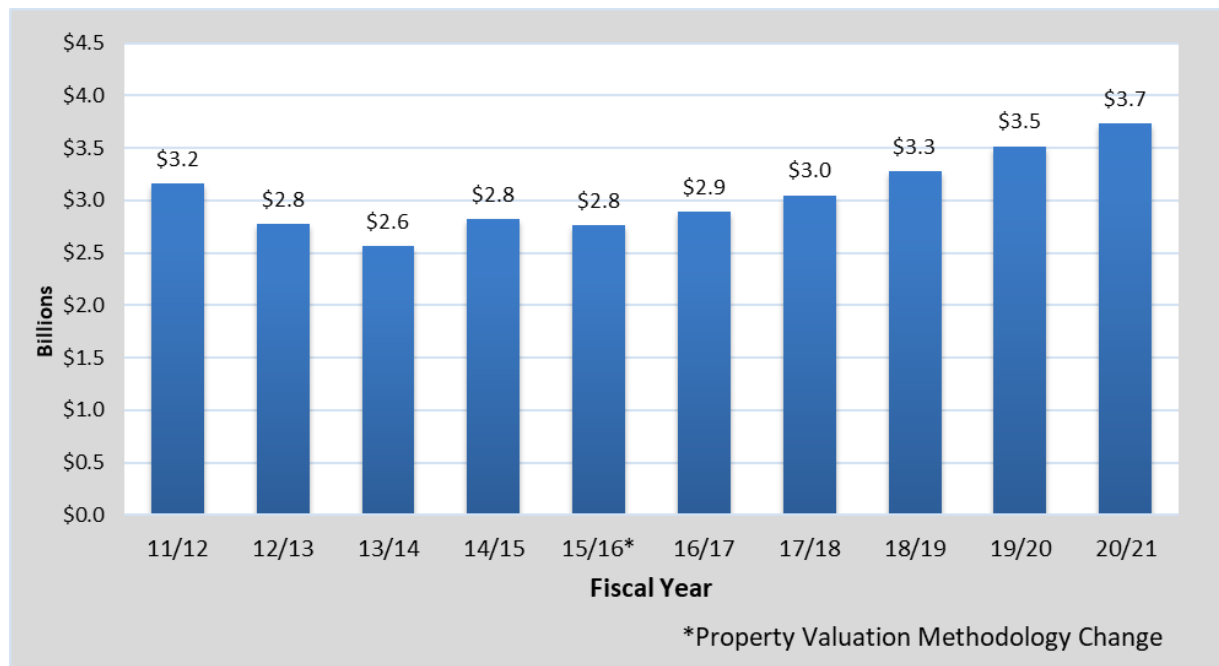
Exempt property (not-for-profit, governmental, etc.) is netted (subtracted) out of the assessed value, resulting in a property’s “net assessed value”. Net assessed value is the value of the property that is subject to taxation. See the calculation from limited property value (LPV) to net assessed value (NAV) in Figure 6 below.

Figure 6. Taxable Property Value Calculation

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

City of Mesa secondary net assessed value for recent fiscal years is shown in Figure 7 below.

Figure 7. City of Mesa – Net Assessed Value by Fiscal Year



The FY 2020-21 median values of a Mesa residential property are shown in Figure 8 below.

Figure 8. City of Mesa FY 2020-21 Median Property Values

Property Value	Median Value	Description
Limited Property Value (LPV)	\$143,050	Taxable value; limited to 5% annual growth
Full Cash Value (FCV)	\$209,800	Upper limit on taxable value; a percentage of sale value
Sale Value (estimate)	\$255,900	Estimated sale price

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.), or
- a restructuring of scheduled debt service payments in order to delay payments, increasing and costs in future years as well as total interest costs.

The property tax levy cannot legally 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 2020-21.

Fiscal Impact

Adopting the proposed secondary property tax levy and rate would allow the City to meet its general obligation debt service obligations as planned. The secondary property tax levy is an important piece in maintaining the fiscal stability of the City.