

CITY COUNCIL REPORT



Meeting Date: June 4, 2024
 Charter Provision: *Provide for the orderly government and administration of the affairs of the City*
 Objective: *Adopt Budgets*

ACTION

Public Hearing on the Proposed FY 2024/25 Property Tax Levy

- 1) SOLICIT public testimony on the proposed fiscal year 2024/25 property tax levy, and
- 2) By a roll call vote, APPROVE a motion to levy the proposed property taxes, taxes to be assessed by ordinance on June 25, 2024.

BACKGROUND

The Arizona State Constitution and State law specify a two-tiered property tax system. The system consists of two levies, a primary property tax levy and a secondary property tax levy. The primary property tax levy is imposed by cities and towns for all general municipal purposes, while the secondary tax levy is only used to retire the principal and interest or redemption charges on bond indebtedness.

Per Arizona Revised Statutes (A.R.S.) § 42-17104, a public hearing on any tax levy must be held at least 14 days prior to the actual levy of the tax. In addition, pursuant to A.R.S. § 42-17107 and the City Charter, if the proposed primary property tax levy (excluding growth) exceeds the prior year's primary property tax levy, a Truth In Taxation (TNT) hearing with more stringent guidelines would substitute for the regular property tax hearing. Since the FY 2024/25 proposed primary property tax levy (excluding growth) does not exceed the FY 2023/24 primary property tax levy, the TNT hearing is not required, but a regular property tax hearing is required.

ANALYSIS & ASSESSMENT

Primary Property Tax Levy (General Fund and Risk Management Fund revenue) – Rate expected to decrease:

The FY 2024/25 proposed primary property tax levy will be used to support General Fund activities such as police and fire protection, operation and maintenance of parks and libraries, and other general governmental functions. The primary property tax levy also includes a repayment to the Risk Management Fund reserve of \$1,255,832 for tort liability claims paid during calendar year

2023.

For FY 2024/25, the city's total proposed primary property tax levy of \$39.64 million is an increase of \$0.26 million over the current year levy of \$39.38 million. The increase is due to 1) the 2 percent statutory adjustment; and 2) new construction, partially offset by the decreased tort liability claim payment. The current primary property tax rate of \$0.5150 per \$100 of assessed valuation is projected to decrease by \$0.0192 to \$0.4958 in FY 2024/25.

As required by A.R.S. § 42-17103 related to Final Budget Adoption (including Proposed Tax Levies), the city published estimates of FY 2024/25 revenues and expenses and a Public Hearing Notice regarding the tax levies in the Arizona Republic once a week for two consecutive weeks on Monday, May 20, 2024 and Tuesday, May 28, 2024.

Additionally, as required by A.R.S. § 9-499.15, the city posted and filed with the City Clerk notice of the proposed tax levy increase with the schedule of the proposed increase and a written report supporting the proposed increase on April 26, 2024, which is 60 days before City Council will consider whether to adopt the ordinance fixing the levy (scheduled for June 25, 2024).

Secondary Property Tax Levy (GO Bond Debt Repayment) – Rate expected to decrease:

Under state law, cities and towns are allowed to levy a secondary property tax for the sole purpose of retiring the principal and interest on general obligation bonded indebtedness. A city or town may levy whatever amount of secondary property taxes is necessary to pay general obligation debt service (and fees related to the debt issuances). Secondary property tax is subject to limitation by the Arizona Constitution.

For FY 2024/25, the city's proposed secondary property tax levy is forecasted to decrease \$0.75 million from the FY 2023/24 adopted budget of \$35.59 million to \$34.84 million due to a reduction in the amount needed for debt service offset by the Qasimyar vs Maricopa County judgment and available fund balance in the debt service fund. The current secondary tax rate of \$0.4664 is expected to decrease by \$0.0306 to \$0.4358 per \$100 of assessed valuation in FY 2024/25.

The FY 2024/25 Secondary Property Tax levy was calculated to ensure the reserve meets the required limitation prescribed in A.R.S. § 35-458(A) – that the levy be net of all cash in excess of 10 percent of the annual payments of principal and interest in the current fiscal year from the previous year remaining in the fund or funds prescribed by A.R.S. § 35-458(B).

Combined Property Tax Levy and Taxpayer Impact:

The combined tax levy is the aggregate of the primary and secondary levies. For FY 2024/25, the city's total proposed combined property tax levy is forecasted to decrease over the current year by approximately \$0.41 million from \$74.89 million in FY 2023/24 to \$74.48 million in FY 2024/25.

In FY 2024/25, based on the proposed tax rates above, property tax bills will reflect a combined property tax rate of \$0.9316, which is \$0.0498 less than the FY 2023/24 combined rate of \$0.9814. In accordance with the city's adopted financial policies for debt management, the combined tax rate will not exceed \$1.50 per \$100 of assessed value. Based on the proposed combined rate, for every \$100,000 of tax assessed value, a property owner will pay \$93.16 in city property taxes. Tax

assessed values are determined by the Maricopa County Assessor’s Office, not the City of Scottsdale.

Property taxes are assessed by schools, county, special districts and the city. About nine cents of every dollar in property taxes paid by Scottsdale property owners goes to the city, and the remainder goes to public schools, the county, community colleges and various special districts.

RESOURCE IMPACTS

For FY 2024/25, the proposed combined property tax rate is \$0.9316 and the combined levy of approximately \$74.48 million is detailed by tax tier and fund below:

Tax Tier	Proposed Tax Rate	General Fund*	Risk Management Fund*	Debt Service Fund*	Total Property Tax Levy*
Primary	\$0.4958	\$38.38M	\$1.26M	-	\$39.64M
Secondary	\$0.4358	-	-	\$34.84M	\$34.84M
Combined	\$0.9316	\$38.38M	\$1.26M	\$34.84M	\$74.48M

For comparison, the current FY 2023/24 property tax rate and levy and the FY 2024/25 proposed property tax rate and levy are below:

Tax Tier	FY 23/24 Tax Rate	FY 23/24 Tax Levy*	Proposed FY 24/25 Tax Rate	Proposed FY 24/25 Tax Levy*	Change in Levy
Primary	\$0.5150	\$39.30M	\$0.4958	\$39.64M	0.9%
Secondary	\$0.4664	\$35.59M	\$0.4358	\$34.84M	-2.1%
Combined	\$0.9814	\$74.89M	\$0.9316	\$74.48M	-0.5%

*Note: \$ in millions; rounding differences may occur.

OPTIONS & STAFF RECOMMENDATION

Recommended Approach

Staff recommends that City Council hold a public hearing and receive public testimony on the proposed levy and property tax rates, approve a motion to levy the proposed taxes and fix the levy by ordinance at the June 25, 2024 Council meeting (Arizona State law requires a period of at least fourteen days between the public hearing on the tax levy and adoption of the tax levy).

As an alternative, at the June 25, 2024, City Council meeting, City Council may choose to approve a

motion adopting a lesser tax levy.

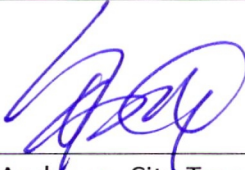
RESPONSIBLE DEPARTMENT(S)

City Treasurer Division

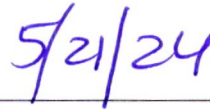
STAFF CONTACT(S)

Ana Lia Johnson, Acting Budget Director, 480-312-7893, anjohnson@ScottsdaleAZ.gov

APPROVED BY



Sonia Andrews, City Treasurer
(480) 312-2364, SAndrews@ScottsdaleAZ.gov



Date

ATTACHMENTS

1. Schedule B from FY 2024/25 Tentative Budget

CITY OF SCOTTSDALE
Summary of Property Tax Levy and Property Tax Rate Information
Fiscal Year 2024/2025
Schedule B

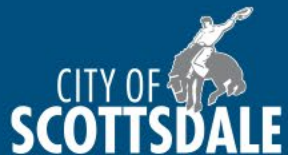
	Fiscal Year 2023/2024	Fiscal Year 2024/2025
1. Maximum allowable primary property tax levy. A.R.S. §42-17051(A)	<u>39,381,406</u>	<u>39,640,195</u>
2. Amount received from primary property taxation in the current year in excess of the sum of that year's maximum allowable primary property tax levy. A.R.S. §42-17102(A)(18)	<u>-</u>	
3. Property tax levy amounts		
A. Primary property taxes	39,298,406	39,640,195
B. Secondary property taxes	35,591,731	34,839,617
C. Total property tax levy amounts	<u>74,890,137</u>	<u>74,479,812</u>
4. Property taxes collected*		
A. Primary property taxes		
(1) 2023/2024 levy	36,910,980	
(2) Prior years' levies	<u>398,000</u>	
(3) Total primary property taxes	37,308,980	
B. Secondary property taxes		
(1) 2023/2024 levy	34,287,216	
(2) Prior years' levies	<u>-</u>	
(3) Total secondary property taxes	34,287,216	
C. Total property taxes collected	<u>71,596,196</u>	
5. Property tax rates		
A. City tax rate		
(1) Primary property tax rate	0.5150	0.4958
(2) Secondary property tax rate	<u>0.4664</u>	<u>0.4358</u>
(3) Total city tax rate	<u>0.9814</u>	<u>0.9316</u>
B. Special assessment district tax rates		

Secondary property tax rates - As of the date the tentative budget was prepared, the city was operating 357 special assessment districts (streetlight improvement districts) for which secondary property taxes are levied. For information pertaining to these special assessment districts and their tax rates, please contact the City of Scottsdale City Treasurer Division.

*Includes actual property taxes collected as of the date the tentative budget was prepared, plus estimated property tax collections for the remainder of the fiscal year.

FY 2024/25 Property Tax Levy and Rate Public Hearing

*City Council Meeting
June 4, 2024*



Property Tax Basics

Limited Property Value Used to Assess Property Taxes

Market or Appraised Value

VS

Limited Property Value (LPV)

- Tax assessed value set by County
- Limited to 5% increase per year



Property Taxes

$LPV \times 10\% \text{ Assessment Ratio}$
 $\times \text{Property Tax Rate}$

Median LPV and Current Property Taxes

Scottsdale
Residential Median
Limited Property
Value for FY23/24

\$378,679



	Property Tax Rate	FY 23/24 Property Taxes
Schools	3.9549	1,497.64
County	1.2044	456.08
City	0.9814	371.64
Special Districts	0.6873	260.27
Total Property Taxes	6.8280	\$2,585.63

Note: Median Limited Property Value per Maricopa County Assessor reports. Property Tax Rates are per \$100 of assessed value. Rounding difference may occur. Rate for schools and special districts may vary based on districts the property is in.



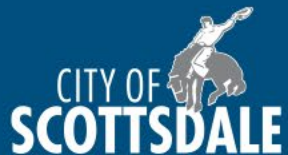
Primary and Secondary Property Tax Rates

0.5150 Primary
(General Fund & Torts)

0.4664 Secondary
(voter approved bonds)

0.9814 Combined Rate

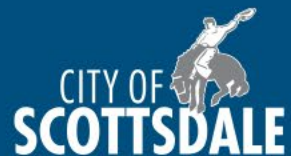
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Note: Property Tax Rates are per \$100 of assessed value. Rate for schools and special districts may vary based on districts the property is in.

Average Distribution of Property Taxes in Scottsdale

57%	18%	10%	8%	7%
Schools / Education	Maricopa County	Special Districts	City Primary	City Secondary



Based on average FY23/24 property tax rates in Scottsdale. Rates may vary based on school district and special districts that property is in. Rounding differences may occur.

Proposed FY24/25 Property Tax Rates

Proposed FY24/25 Property Tax Rates and Levy

(rates per \$100 of assessed value)

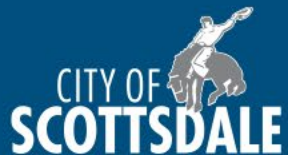
		Rate	Levy
Primary	General Fund and Tort Claims	0.4958	\$39.64M
Secondary	Voter Approved Bonds	0.4358	\$34.84M
Total Combined		0.9316	\$74.48M

Change in Primary Property Tax

	Rate	Levy
Current FY23/24	0.5150	\$39.38M
Appreciation in Assessed Value	(0.0164)	
New Construction		\$0.48M
2% Maximum Levy Increase	0.0094	\$0.74M
Reduction in Amount Needed for Tort Claims	(0.0122)	(\$0.96M)
Proposed FY24/25	0.4958	\$39.64M
% Change from FY23/24	-3.7%	0.66%

Change in Secondary Property Tax

	Rate	Levy
Current FY23/24	0.4664	\$35.59M
Appreciation in Assessed Value	(0.0158)	
New Construction		\$0.42M
Reduction in Amount Needed*	(0.0148)	(\$1.17M)
Proposed FY24/25	0.4358	\$34.84M
% Change from FY23/24	-6.6%	-2.1%



* Includes reduced debt requirements for FY24/25 offset by refunds for Qasimyar vs Maricopa County judgement.

Change in Combined Property Tax Rate

(rates per \$100 of tax assessed value)

	Current	Proposed	% Change
Primary	0.5150	0.4958	-3.7%
Secondary (voter approved bonds)	0.4664	0.4358	-6.6%
Total Combined	0.9814	0.9316	-5.1%

Maximum Combined Rate Allowed by City Policy 1.5000

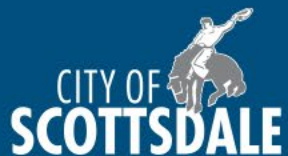
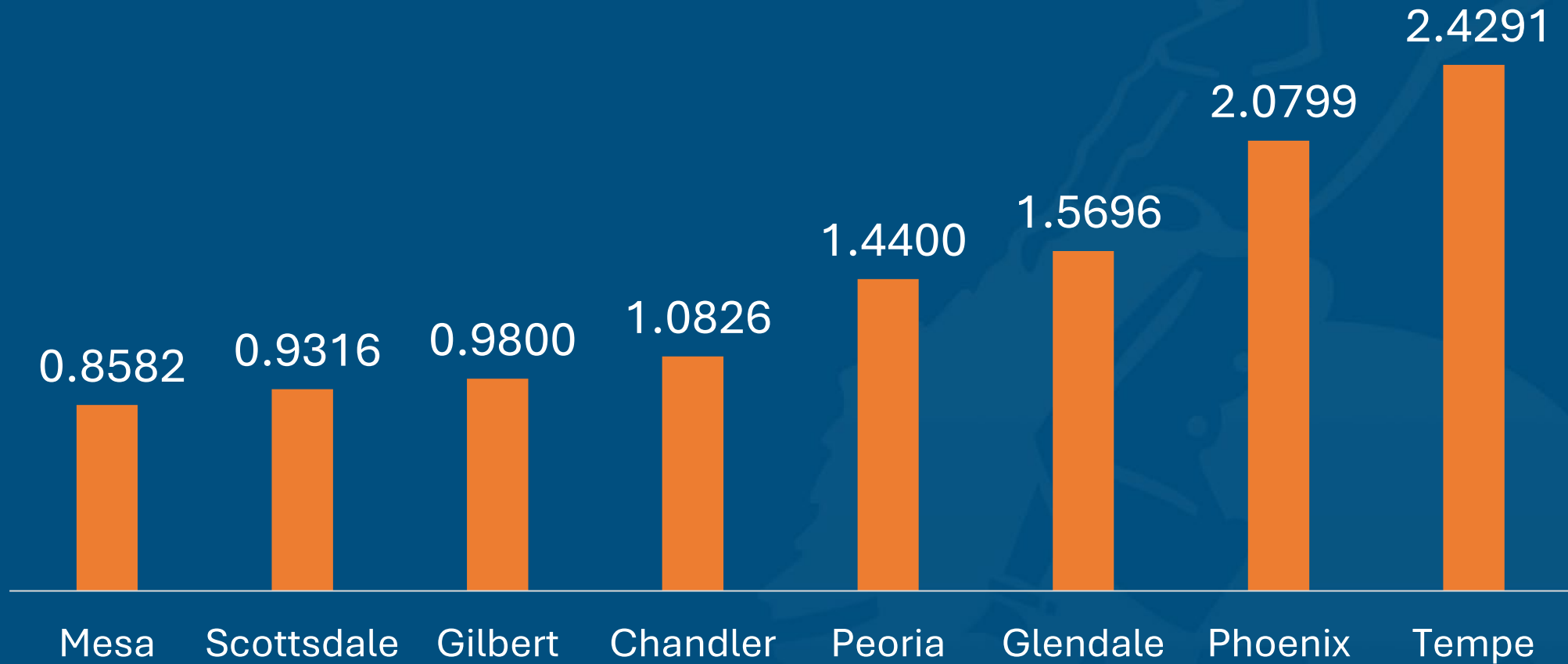
Impact on Median Scottsdale Residential Property

	Current FY23/24	Proposed FY24/25	% Change
Median Limited Property Value	\$378,679	\$397,613	5.0%
Property Taxes:			
School/Education	1,497.64		
County	456.80		
City (primary & secondary)	371.64	370.42	-0.3%
Special Districts	260.27		
Total Property Tax Bill	<u>\$2,585.63</u>		



Note: Proposed FY24/25 property tax rates for other taxing districts currently unavailable.

Proposed FY24/25 Property Tax Rates (city portion)



Note: Property assessed values for each city vary widely which affect property taxes paid. Property tax rate shown for Mesa represents 2023 secondary rate as the 2024 rate is currently unavailable.

2-Step Process for Property Tax Adoption Required by State Law

June 4 Public Hearing and Presentation

June 25 Adoption of Property Tax Levies

ACTION

- **SOLICIT** public testimony on the proposed FY 2024/25 property tax levy
- **BY A ROLL CALL VOTE, APPROVE** a motion to levy the proposed property taxes, taxes to be assessed by ordinance on June 25, 2024.