

CITY OF MESA
PROPOSED SECONDARY PROPERTY TAX RATE INCREASE

This report is intended to fulfill the requirements of A.R.S. § 9-499.15.

Background

Arizona State law (Arizona Revised Statutes Title 35, Chapter 3, Article 3) authorizes the issuance of general obligation bonds payable from ad valorem tax levied on all taxable property within the City of Mesa (City). Mesa voters approved two such general obligation bond questions at the November 6, 2018 general election, authorizing a total of \$196 million in new bonds for public safety and parks and cultural projects. The City funds debt service (principal and interest payments) on general obligation bonds primarily with secondary property tax. The general election publicity pamphlet included an annual cost estimate of \$50 to the median homeowner for the new bonds, while the cost of the proposed tax rate and levy adjustment is just \$32.

The City's secondary property tax revenue is limited in use to the repayment of general obligation debt. The secondary property tax rate is calculated using property values for property in the City as published by the Maricopa County Assessor's Office. The secondary property tax rate is applied to each property's limited property value (LPV) to determine the tax due. The City Council adopts the secondary tax levy and associated rate each year.

The City's practice is to fully adjust the secondary property tax levy in the fiscal year following a successful bond election to fund all the newly-authorized bonds after they are issued, but the City only sells bonds annually as needed to fund capital projects in that year. The proposed increase to the FY 2019/20 secondary property tax rate and levy would fund the debt service on the additional parks and cultural and public safety bonds authorized by voters in 2018.

Adjustment

The FY 2019/20 proposed levy is an amount not-to-exceed (NTE) \$42.7 million, adjusted from \$33.4 million in FY 2018/19. The corresponding rate is NTE \$1.2136 per \$100 of net assessed value, adjusted from \$1.0201 in FY 2018/19. The FY 2019/20 proposed tax rate applied to a median residential limited property value of \$132,000 (\$228,000 sale value) would result in a City property tax bill of up to \$161 per year. The following table compares the City's FY 2018/19 secondary property tax with the proposed changes for FY 2019/20.

Table 1. FY18/19 and Proposed FY19/20 Secondary Property Tax

	FY18/19	FY19/20 Proposed (NTE)	\$ Change	% Change
Limited Property Value (Taxable Value)	\$3.28 billion	\$3.52 billion	\$0.24 billion	+7%
Secondary Property Tax Rate (per \$100 of Taxable Value)	\$1.0201	\$1.2136	+\$0.1935	+19%
Secondary Property Tax Levy (Taxable Value x Tax Rate)	\$33.4 million	\$42.7 Million	+\$9.3 million	+28%
Annual Cost to Median Homeowner	\$129	\$161	+\$32	+25%

Table 2 below compares the estimated tax impact included in the election publicity pamphlet, as well as the impact of the proposed (NTE) rate and levy.

Table 2. Estimated Tax Impact of 2018 General Obligation Bonds

	Secondary Property Tax Rate Impact	Annual Cost to Median Homeowner
Election Publicity Pamphlet	\$0.4300	\$50
Proposed (NTE)	\$0.1935	\$32

The impact of the proposed (NTE) tax rate (\$0.1935) is less than half the estimate included in the voter election pamphlet (\$0.4300) for several reasons:

- increased property values (both existing property and new development) from the prior year;
- conservative financial assumptions on prior bond issuances; and
- savings from refundings of prior bond issuances.