

City Council Regular Meeting

K.1

Meeting Date: 07/22/2019
Recommended by: Celina Morris, Finance Director
Prepared by: Veronica Ramirez, Budget Analyst
Finance Director Review: Celina Morris
City Attorney Review: Brett Wallace
Approved by: Larry Rains **Date Submitted:** 07/02/2019
Type of Action Requested: Ordinance

SUBJECT:

Consideration of establishing the Primary and Secondary Tax Rates.

RECOMMENDATION:

Adopt an ordinance establishing the Primary and Secondary tax rates for the City of Casa Grande for FY2020.

DISCUSSION:

Staff has prepared one (1) Request for Council Action to consider the FY20 primary and secondary property tax levies. However, staff has included two (2) Ordinances with different levies for consideration as discussed further in the alternatives section of this request. While staff fully supports a maximum levy of \$4,389,245, which results in a tax rate of \$1.1244, staff's recommendation tonight is to establish a primary tax levy of \$4,140,000, which results in a tax rate of \$1.0606. The recommended tax level results in a nearly 15% increase over the prior year levy of \$3,601,101. Staff further recommends that any new primary property tax revenue generated over \$3,601,101 in FY20 be dedicated to paying down the unfunded liability in the City's public safety pension plans for one (1) year.

During the FY20 Budget process, staff has outlined the various property tax levy options, as well as, the estimated unfunded liability of the City's Public Safety Retirement Pensions. Staff advertised the Truth in Taxation Notice disclosing the maximum levy of \$4,389,245, which provides for a primary property tax rate of \$1.1244 per \$100 of net assessed value. This allows the Mayor and City Council the option of levying the maximum rate under state statute. The Mayor and City Council held a public hearing on Monday, July 8, 2019 related to the proposed tax levy. As of the time this request is submitted, we have not received any formal comments.

Primary property taxes collected are used within the general fund for operational purposes and secondary property taxes are utilized to pay voter authorized general obligation bond

debt. The FY20 budget proposal included an increase in the primary tax levy for two (2) principal reasons. 1) In FY20, the secondary property tax levy must be reduced to comply with new state statutes related to establishing limits on the maximum fund balance in these debt service funds. The anticipated decrease to the secondary tax levy in FY20 would allow the City to levy the maximum primary property tax rate and generate new revenues. Staff is proposing to apply the new revenues to the unfunded liability of the public safety pensions. Both can be achieved while our residents and businesses recognize an overall net decrease in the City's portion of the property owner's tax bills. 2) The new revenue generated over the baseline primary property tax income of \$3,601,101, which is currently used to provide General Fund services and programs, could be directed toward the unfunded liability (estimated at \$48 million for both police and fire) of the City's Public Safety Pensions in FY20. Depending on the final levy adopted by the Mayor and City Council, this could be as much as \$780,000 if the maximum levy is approved.

There are three (3) considerations related to setting the primary rate highlighted below:

1. The reduction in the secondary property tax rate is essentially a 1-year reduction. Once we have applied the fund balance reserves to service the FY20 debt payments, the secondary levy in future years will need to be established at a rate sufficient to service those annual debt payment requirements. This will result in the secondary tax levy returning to similar levels prior to FY20.
2. The state statute requires a **unanimous decision by the elected body** if the primary property levy is increased more than 15% from the prior year. In our case, the maximum levy would result in a 22% increase and establish a primary levy at \$1.1244 and generate approximately \$782,016 in additional revenue. The 15% threshold would establish a primary levy at \$1.0606 and generate approximately \$534,709 in additional revenue.
3. Staff has provided four (4) specific options for your consideration (see attached analysis). However, the Mayor and Council can establish and adopt any rate between \$0.9225 - \$1.1244.

FISCAL IMPACT:

Revenue associated with the adoption of the primary and secondary property tax rates represents a significant portion of the City's annual operational revenues.

ALTERNATIVES:

Although staff generally only prepares one Ordinance for consideration by Council, tonight staff has prepared two drafts as a result of a state statute requiring unanimous consent for certain increases in the property tax levy. Should Council elect to move an Ordinance adopting a rate in excess of fifteen percent (15%) of last year's levy, the Ordinance **would need unanimous consent to be approved**. If a majority of Council voted in favor of the

Ordinance but any Councilmember voted against it, the Ordinance would **fail** as a result of the statute. If staff only prepared one Ordinance and it ultimately failed, Council would not be able to take any action concerning the property tax at the July 22nd meeting.

Because Staff obviously cannot know the outcome of the vote before it is taken, Staff wanted to ensure that, in the event an Ordinance is moved with a rate in excess of fifteen percent (15%) and that Ordinance "fails" by not receiving unanimous support, that Council had the option of considering a second Ordinance at the same meeting. This allows Council to consider a different rate and serves as a belt and suspenders approach to help ensure that a property tax Ordinance can be adopted at the rate determined by Council.

Attachments

Ord. No. 3141

Ord. No. 3142

Schedule B - Tax Levy and Tax Rate Information

Primary Property Tax Rate Calculations

Presentation
