

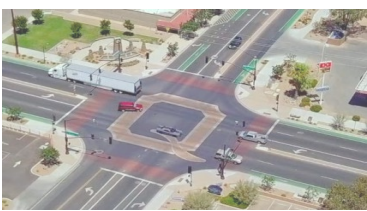
# PROPERTY TAX POLICY RECOMMENDATIONS

Town Council

October 19, 2022

# PURPOSE OF PRESENTATION

1. Discuss Recommendation to Eliminate SLID Property Taxes Beginning FY 2023-24 (Streetlight Improvement Districts)
2. Discuss a Recommendation to Adopt a New Financial Policy to Maintain the Same Primary Property Taxes for Existing Taxpayers Beginning FY 2023-24 for 5 Years



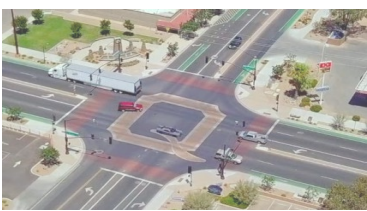
# Roles

## TOWN COUNCIL

Make Policy Decisions

## TOWN STAFF

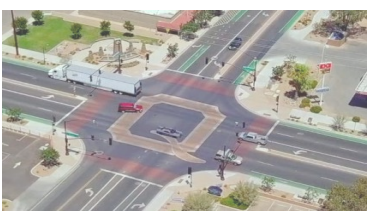
- Identify Policy Issues
- Develop Options
- Identify Expected Outcomes
- Make Recommendations



# Things to Remember . . .

- Assumes All Other Financial Policies Remain Unchanged
- Assumes All Existing Revenues Remain in Place
- Assumes No Revenue Reductions Caused by Changes in State Law
- Changes are Possible ... It's Your Decision



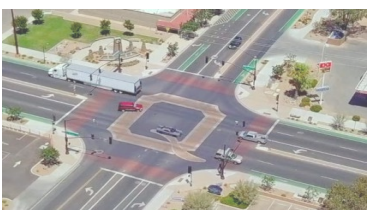


# SLIDS

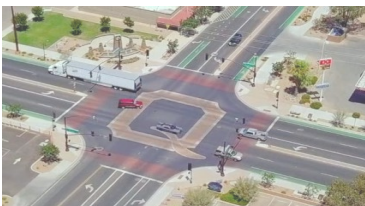


# SLID OVERVIEW

- Included on Property Tax Bill
  - Each SLID and Parcel Tax is Unique
- Intended to Recover Electricity Costs for Lighting Residential Subdivisions (\$200K Annually)
  - Prior to FY 19-20, included \$500K in Street Pole Maintenance Costs Which were Removed when Town Assumed Street Pole Ownership
    - Removal Reduced SLID expenses by an average of ~70%
- Since FY 18-19, Town has Actively Managed SLID Cash Balances to Reduce SLID Taxes
  - 51 SLIDs still have cash balances to cover annual expenses
  - Average cash balance will last 3 years



# FY 22-23 SLIDs



- Annual Expense: \$200K
- Property Taxes: \$93K
  - Reduced by cash balances
  - Once cash balances are depleted, levies would more closely reflect annual expense (\$200K)
- Number of SLIDs: 131 (76 with a Levy)
- Number of Parcels: 16,184 (10,692 with a Levy)
- Range of Annual Tax per Parcel: <\$1 to \$90
  - Newer SLIDs have higher levies because fewer homes
  - As SLID subdivision is built-out, levies decline

# EXAMPLE: SLID PROPERTY TAX

## (MEDIAN VALUE HOME)

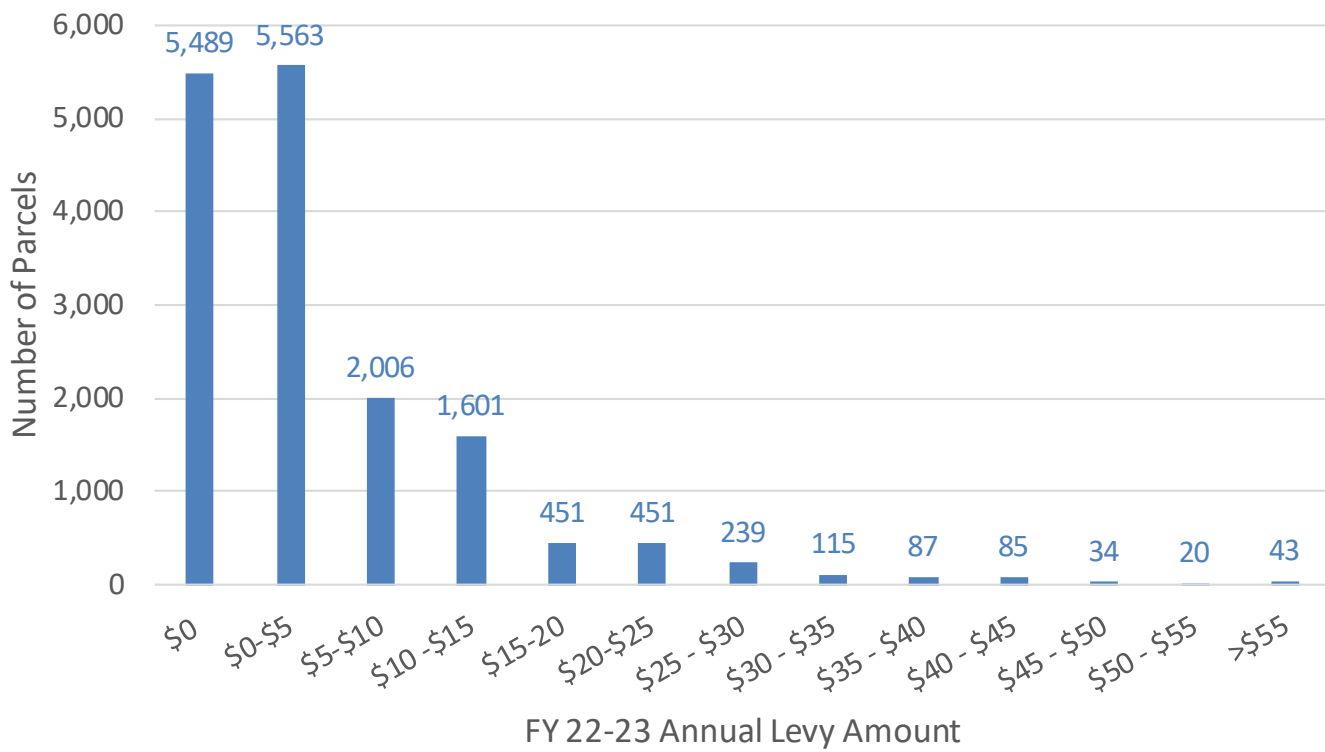


	FY 22/23 Estimated
<b>A) Limited Property Value (LPV)</b>	<b>\$241,621</b>
B) Assessment Ratio	10%
C) Assessed Value at 10% of LPV (A x B)	\$24,162
D) Conversion to a “per \$100” AV (C ÷ \$100)	\$242
E) Tax Rate per \$100 AV <sup>(a)</sup>	\$0.06
<b>F) Property Tax (D x E)</b>	<b>\$15</b>

(a) Based on average property tax rate for FY 22/23; rates range from \$0.01-\$0.36

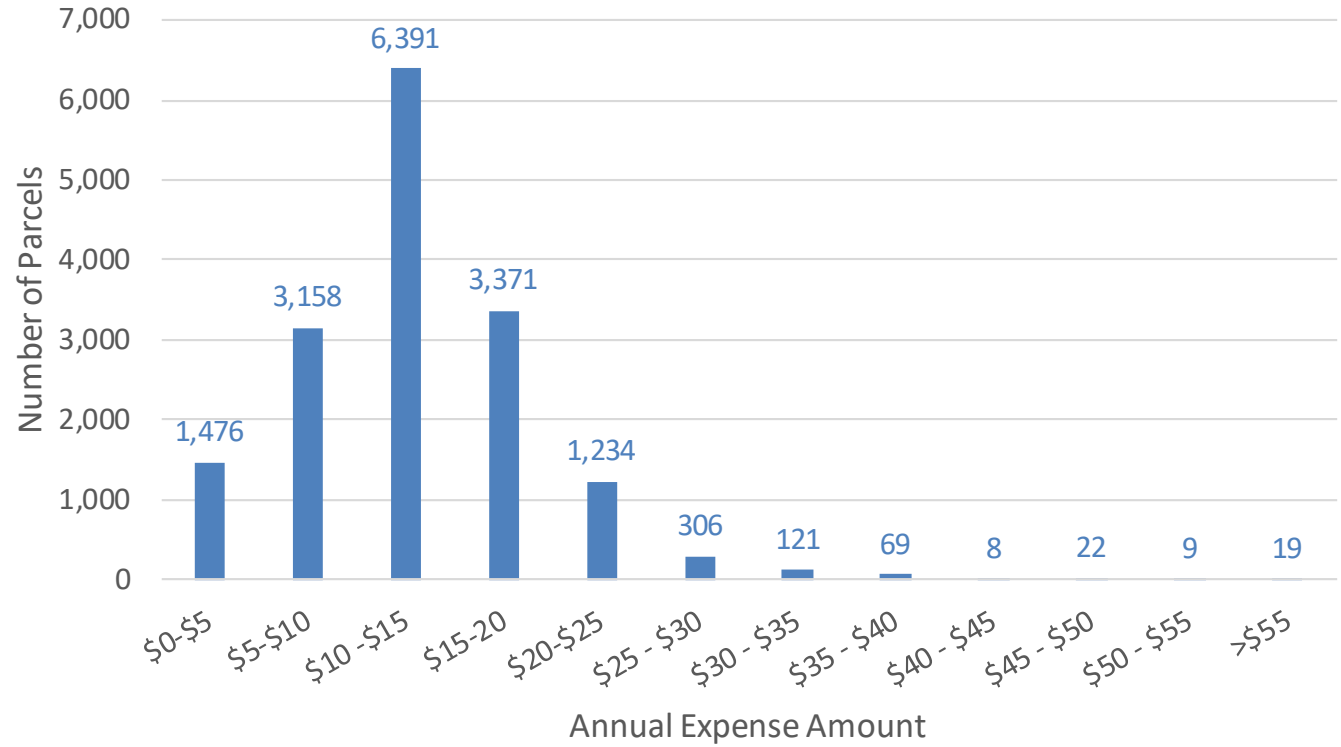


# FY 22-23 SLID PROPERTY TAXES BY PARCEL: \$93K (16.1K PARCELS)



Levy amounts have been adjusted for any SLIDs with cash balances offsetting FY 22-23 expenses

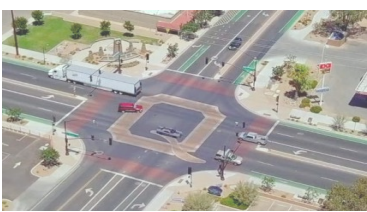
# ANNUAL SLID EXPENSE AMOUNTS BY PARCEL: \$200K

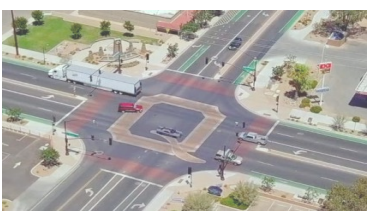


# Recommendation

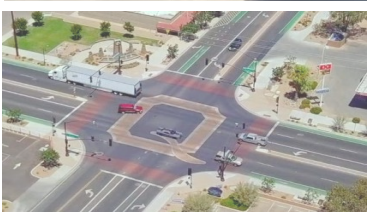
Effective for FY 23-24, Adopt a New SLID Financial Policy that:

- Maintains All Existing SLIDs
- Sets a Levy Rate of \$0 for All SLIDs (per ARS 48-616 (F))
- Uses Existing SLID Cash Balances to Offset Expenses Until Depleted (\$145K)
- Continues the Existing Process to Form New SLIDs with a \$0 Levy Rate
- Annually adopt a Resolution Affirming this Policy
- Preserves the Town Council's Authority to Set a Levy Rate at Any Amount Greater the \$0 in the Future
  - Arrears Amounts Cannot be Collected





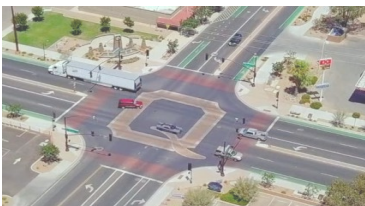
# PRIMARY PROPERTY TAXES



# *BACKGROUND*

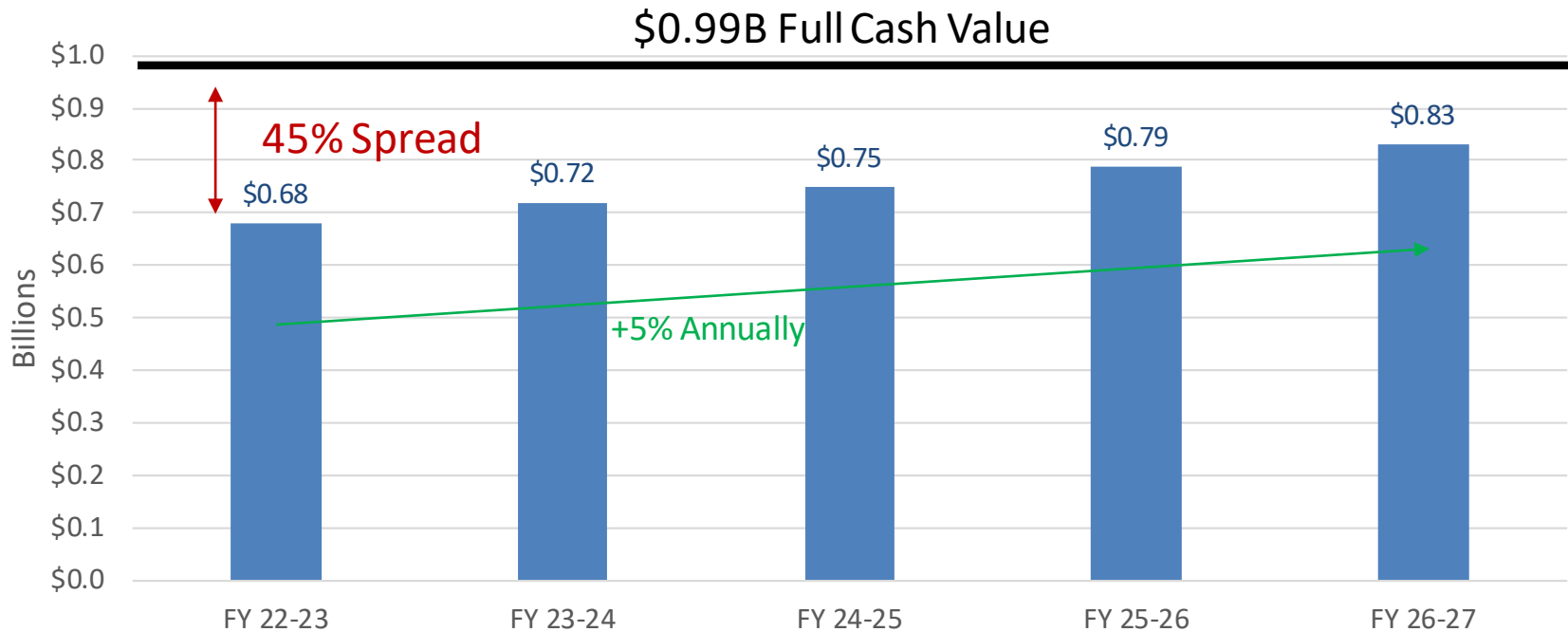


# HOW IS PROPERTY VALUED?



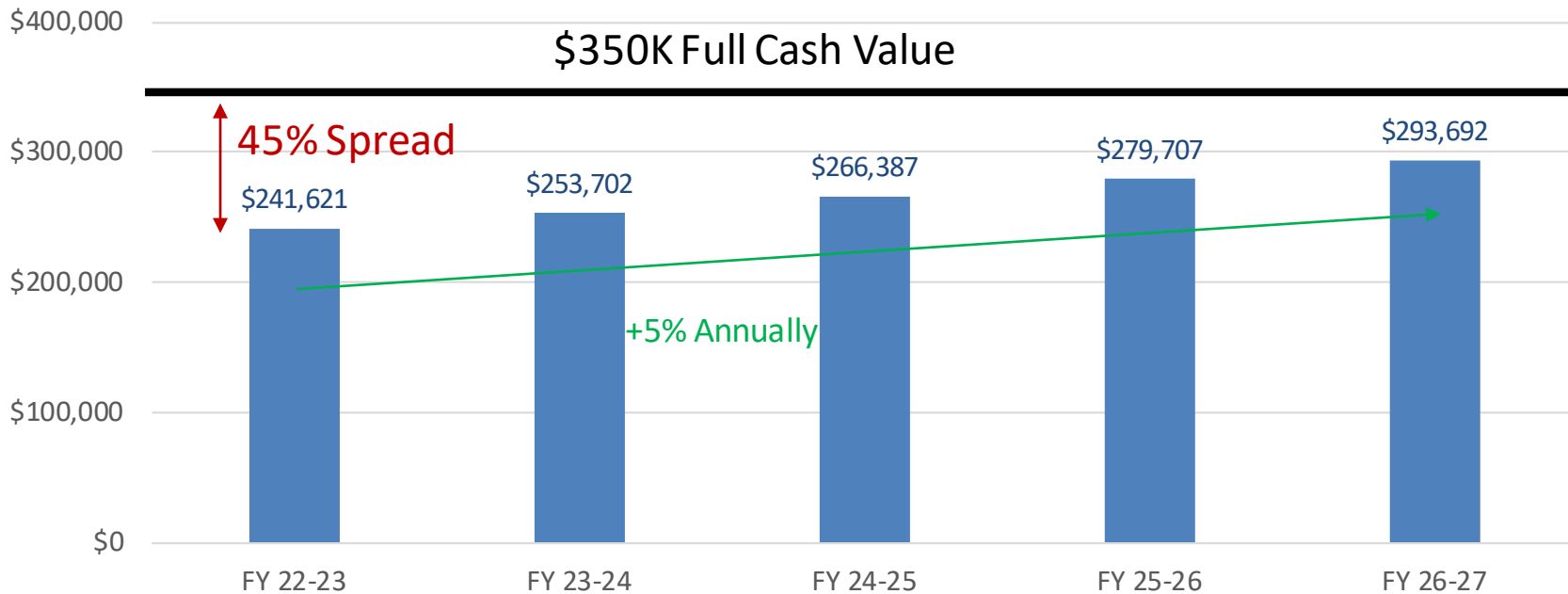
- **Full Cash Value (FCV)**
  - Approximates Market Value of the Property (\$0.99B)
- **Limited Property Value (LPV)**
  - Basis for Primary Property Tax (\$0.68B)
  - Increases annually by 5% (unless property use changes)
  - Can never be greater than FCV
- **Spread between FCV and LPV = 45% (9 years)**
  - If FCV were to stop growing, LPV will continue to increase until LPV equals FCV on a parcel by parcel basis (see next slide)

# FULL CASH VALUE VS. LIMITED CASH VALUE



# FULL CASH VALUE VS. LIMITED CASH VALUE

## EXAMPLE: MEDIAN VALUE HOME



# 2022 Property Tax Allocation in Queen Creek (Maricopa County)



Higher  
Government

4¢ State  
10¢ County

**14¢**



Municipal  
Government

15¢ Town – QC

**15¢**

\$1.83 per  
\$100 AV for  
Public Safety



Education

52¢ Local School District  
14¢ Community College

**66¢**



County-Wide  
Special Districts

3¢ Healthcare  
1¢ Flood Control  
1¢ CAWCD  
1¢ Other – Library, Fire

**6¢**

Allocations subject to change annually based on other taxing jurisdictions' levies

# PRIMARY PROPERTY TAX HISTORY



- Voter Approved in 2007
  - Dedicated Use for Fire/EMS and Police Expenses
  - Created to Provide a Stable Revenue Source to Pay for Expenses (Policy Objective)
  - “Not to Exceed to \$1.95 Levy Rate”
- Levy Rate
  - \$1.95 From Inception Until FY 20-21
  - \$1.83 Since FY 21-22



# PROPERTY TAX REVENUE FORMULA AND ROLES



Limited  
Property  
Value (LPV)  
**\$0.68B**

Maricopa /  
Pinal  
County

**X**

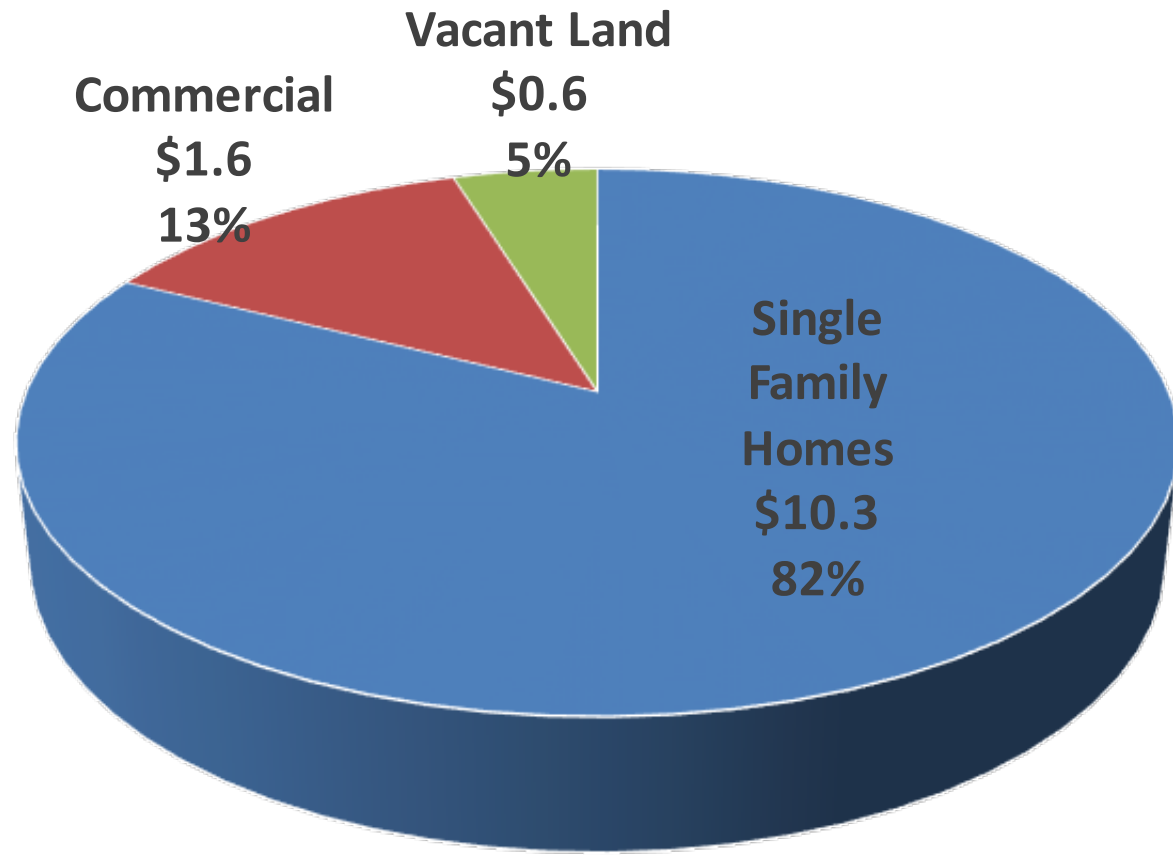
Levy Rate  
(per \$100 AV)  
**\$1.83**

**=**

Annual  
Revenues  
**\$12.5M**

Town  
Council

# WHO PAYS PROPERTY TAXES: \$12.5M



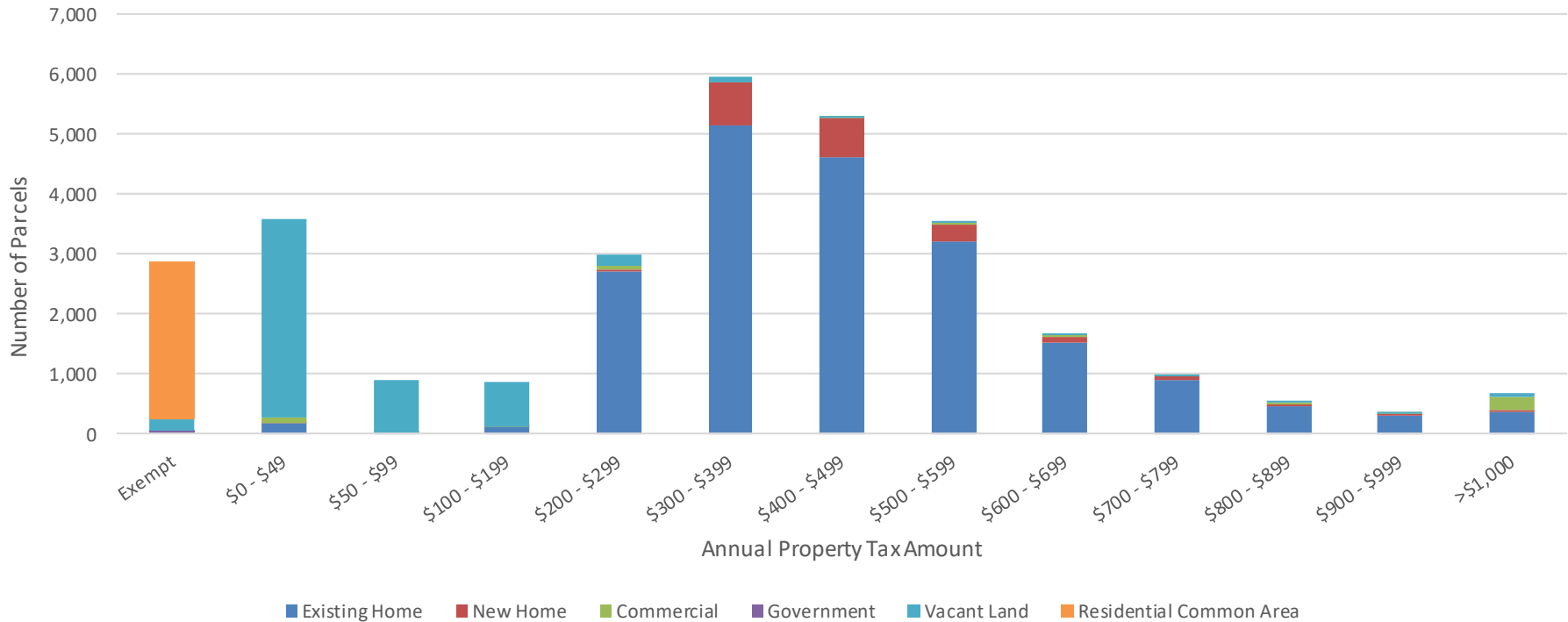
# HOW IS INDIVIDUAL PROPERTY TAX CALCULATED?

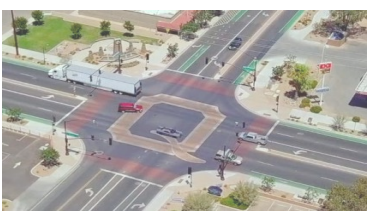


Single Family Residential Example	Amount
<b>A) Limited Property Value (LPV) FY 22-23 Median Example</b>	<b>\$241,621</b>
<b>B) Residential Assessment Ratio</b>	<b><u>10%</u></b>
<b>C) Assessed Value at 10% of LPV (A x B)</b>	<b>\$24,162</b>
<b>D) Conversion to a “per \$100” (C/\$100)</b>	<b><u>\$242</u></b>
<b>E) Property Tax Rate per \$100 of Assessed Value</b>	<b>\$1.83</b>
<b>F) Primary Property Tax Assessment (D x E)</b>	<b>\$441</b>

# PROPERTY TAXES: ALL PROPERTY TYPES (~30K PARCELS)

## FY 22-23: \$12.5M

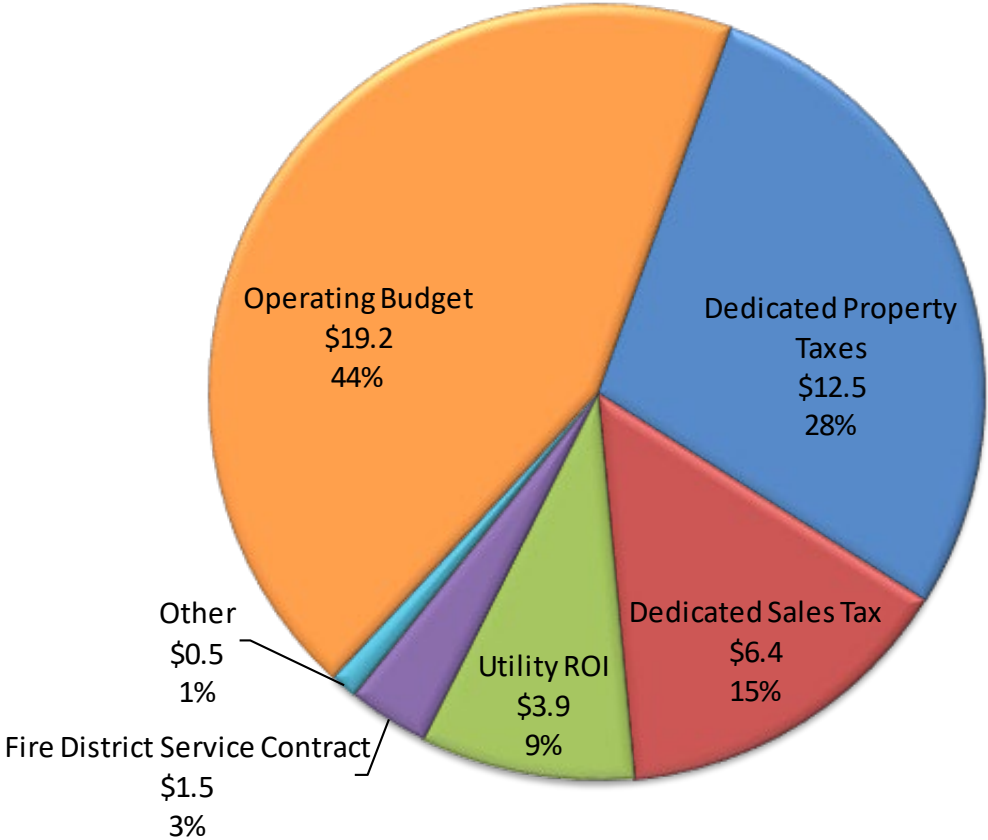




# *NEW POLICY DISCUSSION AND RECOMMENDATION*



# FY 22-23 EMS SOURCES: \$44M



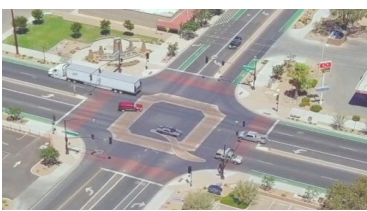
# POLICY QUESTIONS



1. Should Property Tax Revenues be Increased Annually by the Amount Generated from New Construction?
2. How Much Property Tax Revenues Should be Received from Existing Taxpayers?
3. Is a Desired Objective that Property Taxes Cover at Least 20% of Public Safety Expenses?
4. New Policy Should Not Cap Police and Fire Expense Growth (Public Safety is #1 Priority)
5. What is the “Value” of Maintaining a Levy Rate Below the Voter Approved \$1.95?

# KEY ISSUES

1. Define a Property Tax Increase
2. Review Property Taxes in Context of Public Safety Expenses
  - Expenses are Projected to Increase over the Next 5 Years
3. Impact on Taxpayers



# DEFINITION OF A PROPERTY TAX INCREASE

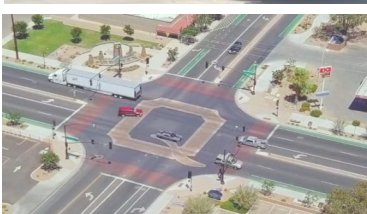


- Truth in Taxation (TNT) Rate
  - Identifies the Levy Rate that Prevents a Tax Increase
- A Property Tax Increase Occurs When a Taxpayer Pays More Tax in a Subsequent Year
  - Two Circumstances Can Cause a Tax Increase
    1. The Levy Rate is Increased above the TNT Rate and AV Remains Unchanged
    2. The Levy Rate Remains the Same and AV Increases
- A Property Tax Increase Does Not Occur If:
  - Total Revenue Increased as a Result of New Construction **(RECOMMENDATION)**
  - The AV Increase is Offset by a Levy Rate Decrease (TNT Levy Rate) **(RECOMMENDATION)**

# EXAMPLE OF A TAX INCREASE

	Annual Revenue	Revenue Change	Amount From New Properties	Change from Existing Properties	Levy Rate
FY 21-22 Amount	\$11.0M				\$1.83
<b><u>FY 22-23 Options</u></b>					
1. Same <u>Revenue</u> as Current Year from Existing Properties and Additional Revenue from New Properties Only <b>NOT A TAX INCREASE</b>	<b>\$11.8M</b>	+\$0.8M	+\$0.8M	\$0	\$1.73
2. Same Levy Rate as FY 21-22 <b>COUNCIL APPROVED TRIGGERS TNT PROCESS TAX INCREASE</b>	<b>\$12.5M</b>	+\$1.5M	+\$0.8M	<b>+\$0.7M</b> <b>Tax Increase</b>	\$1.83





# *AGGREGATE IMPACTS*

# NEW CONSTRUCTION PROPERTY TAXES

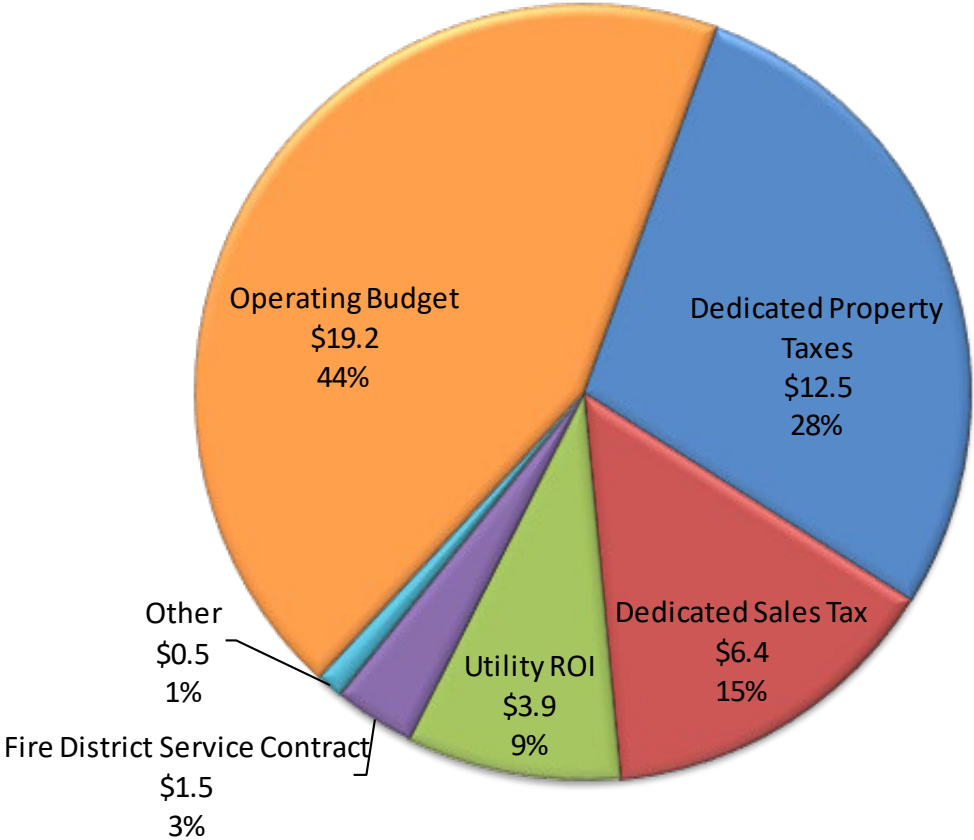
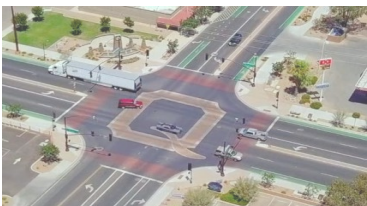
- AV is Expected to Increase \$40M to \$50M Annually from New Construction
- Since Inception, the Town has Received New Tax Revenues from New Construction
- **RECOMMEDATION**
  - Continue the Practice of Receiving New Tax Revenues from New Construction
  - Property Tax Revenue Projections from New Construction: \$0.8M to \$1.0M Annually (see next slide)



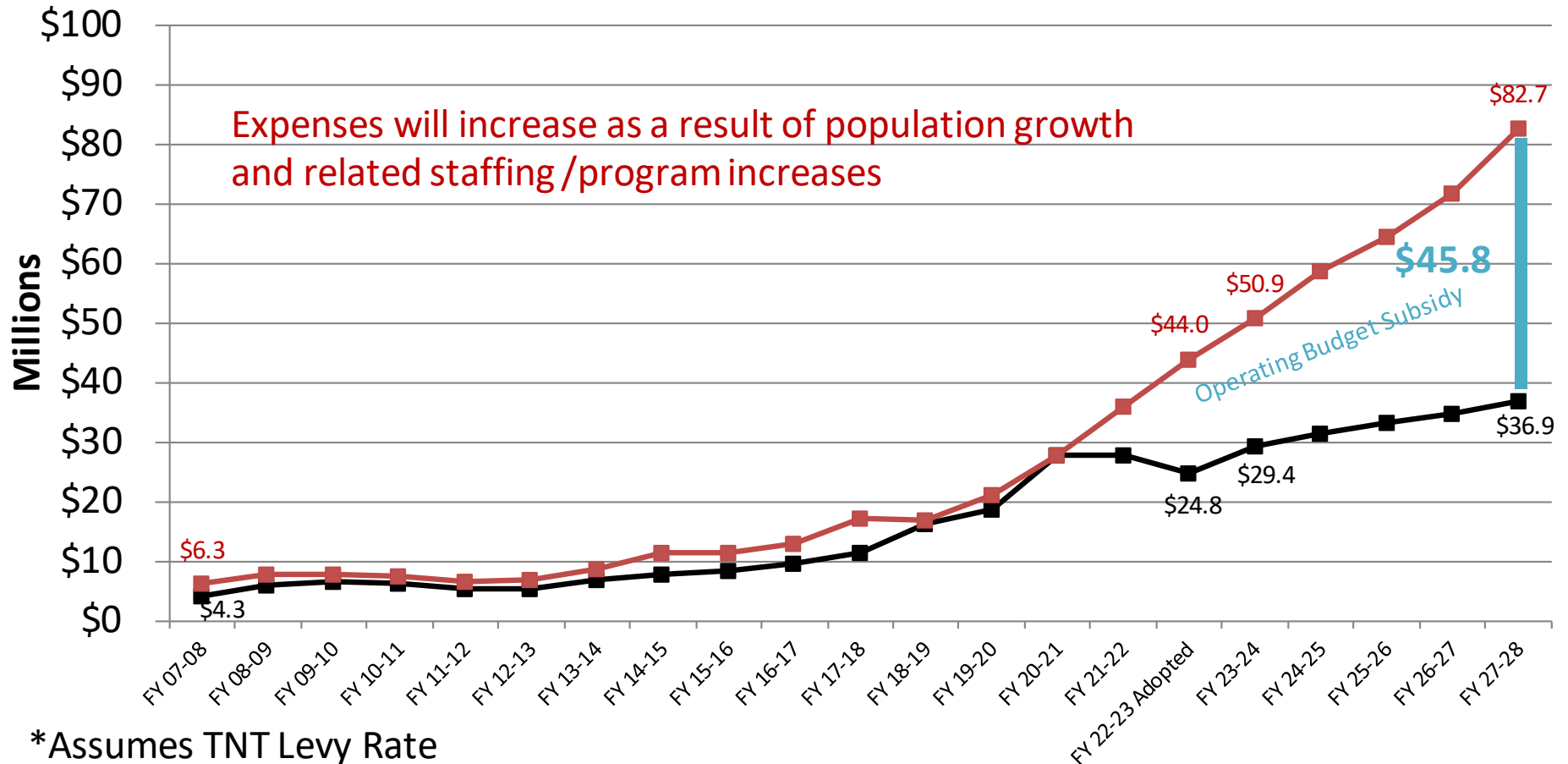
# NEW CONSTRUCTION PROPERTY TAX PROJECTIONS



# FY 22-23 EMS SOURCES: \$44M



# EMS FUND REVENUES\* AND EXPENSES



\*Assumes TNT Levy Rate



# REVENUE CONTEXT

Revenue	\$1.83 Rate FY 22-23 %
Operating Budget	44%
Property Tax	28%
Dedicated Sales Tax	15%
Utility ROI	9%
Fire District Contract	3%
Other	<u>1%</u>
Total	100%

TNT Rate FY 27-28 %
51%
22%
11%
7%
4%
<u>5%</u>
100%

Difference between \$1.83 vs TNT Rate \$
+\$4.7M
-\$4.7M



A Shift  
in  
Who  
Pays

# PUBLIC SAFETY EXPENSE PROJECTIONS

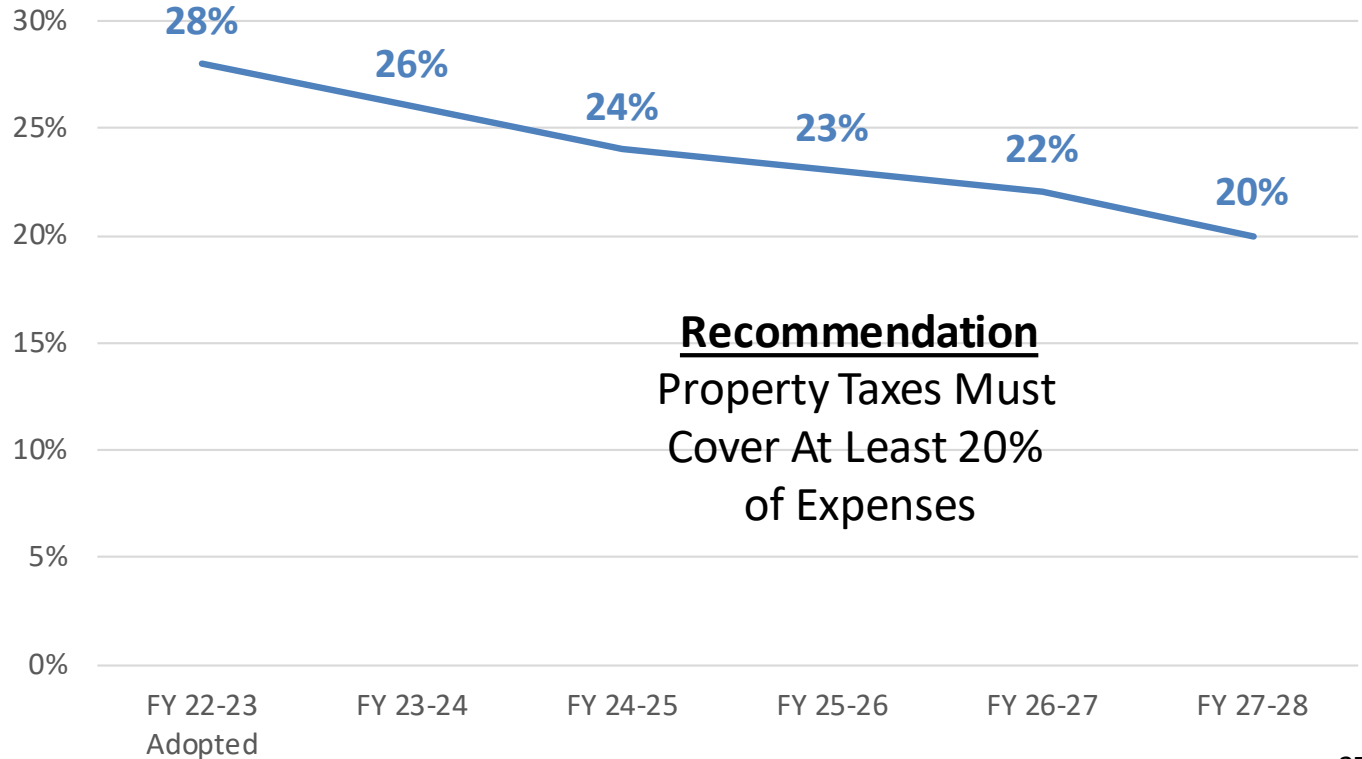


Expense Category	FY 22-23 Adopted Budget	FY 27-28 Budget	\$ Change	% Change
Personnel	\$28.6M	\$53.9M	\$25.3M	88%
Contractual/Supplies/Capital	\$12.6M	\$23.3M	\$10.7M	85%
Debt / Infrastructure Funding	<u>\$2.8M</u>	<u>\$5.5M</u>	<u>\$2.7M</u>	<u>96%</u>
<b>Total Expenses</b>	<b>\$44.0M</b>	<b>\$82.7M</b>	<b>\$38.7M</b>	<b>88%</b>

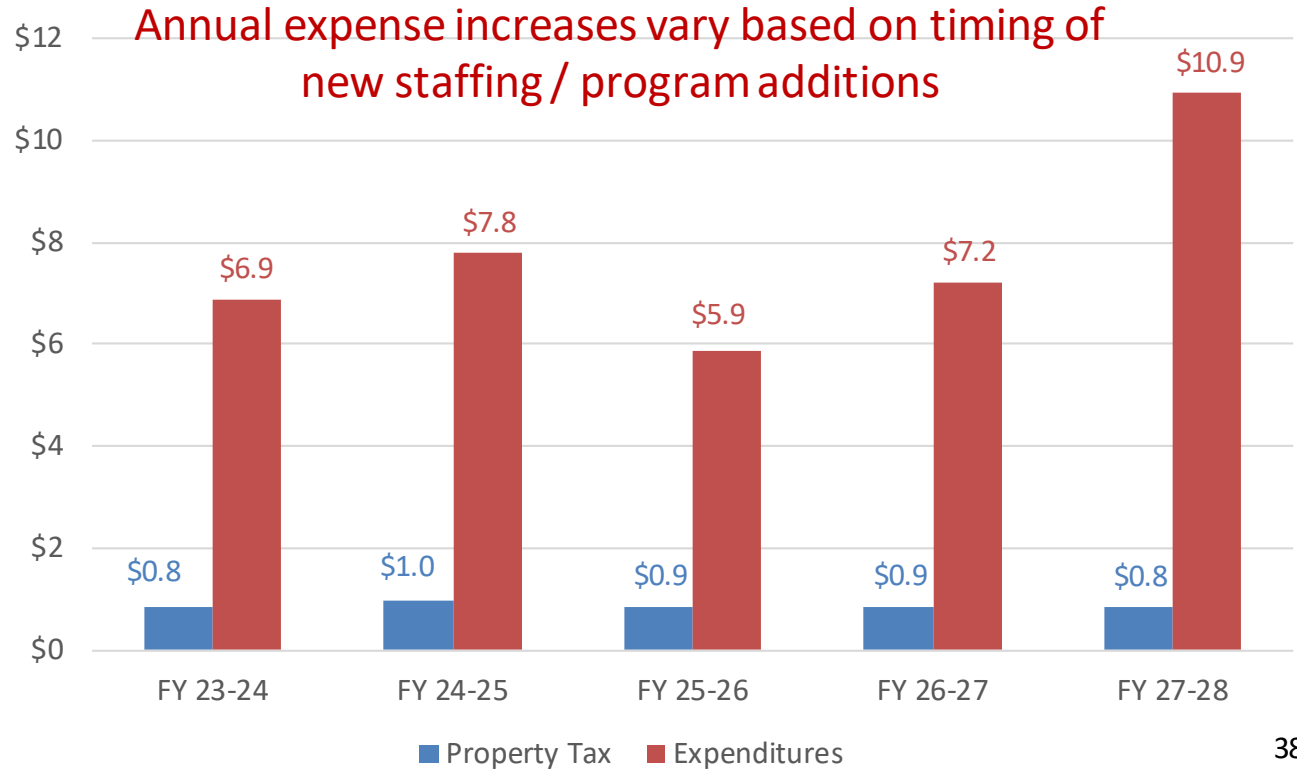
# REVENUE AND EXPENSE GROWTH

	FY 22-23 Adopted Budget	FY 27-28 (5 Years)	5th Year Change
Public Safety Expenses	\$44.0M	\$82.7M	+\$38.7M
Property Taxes	\$12.5M	\$16.8M	+\$4.3M
Property Taxes as a Percent of Public Safety Expenses	28%	20%	

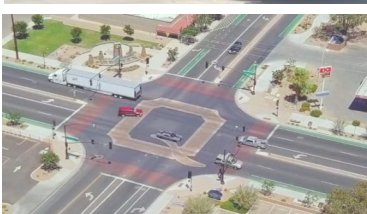
# PERCENT OF EXPENSES COVERED BY PROPERTY TAX AT TNT RATE



# ANNUAL PROPERTY REVENUE INCREASE (AT TNT RATE) VS ANNUAL EXPENDITURE INCREASE

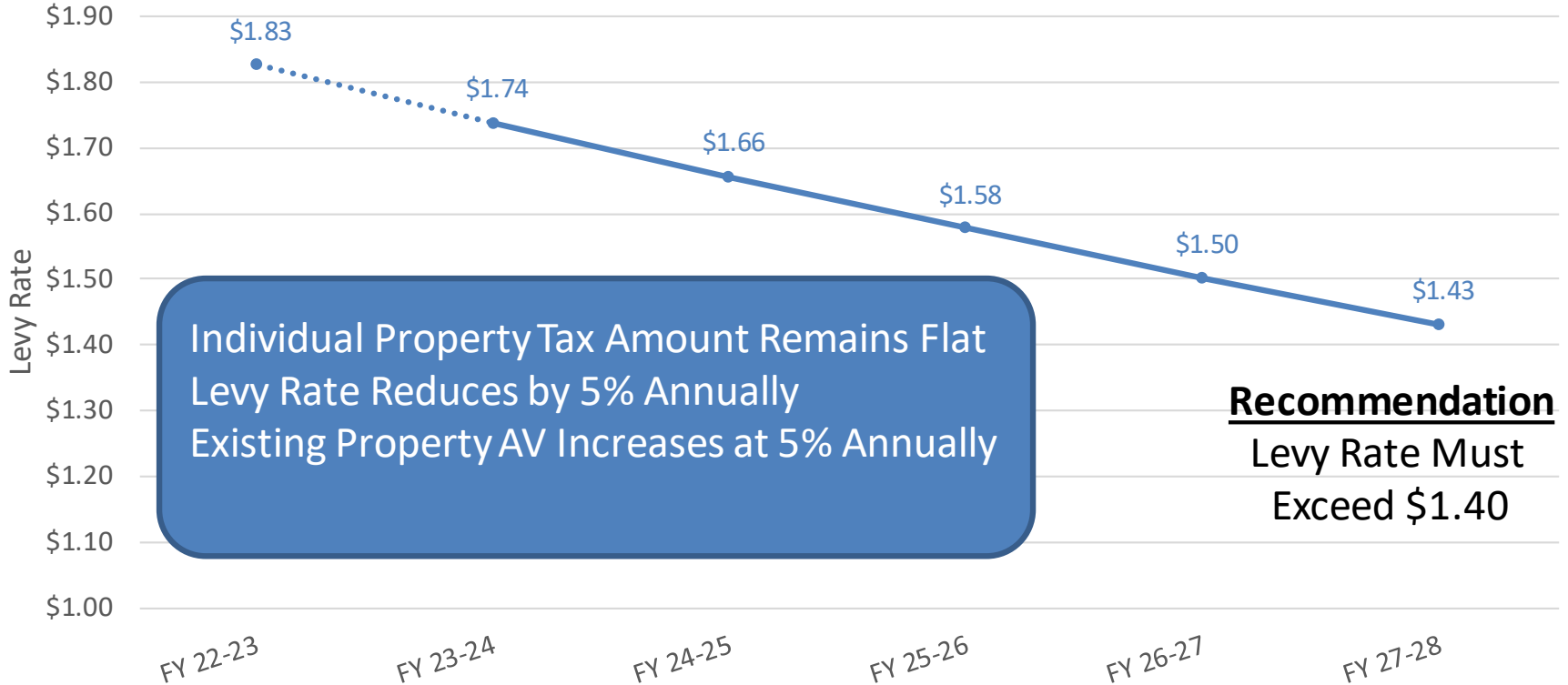






# *TAXPAYER IMPACTS*

# TNT LEVY RATE PROJECTION



# EXAMPLE: SAME PROPERTY TAX (MEDIAN VALUE HOME)

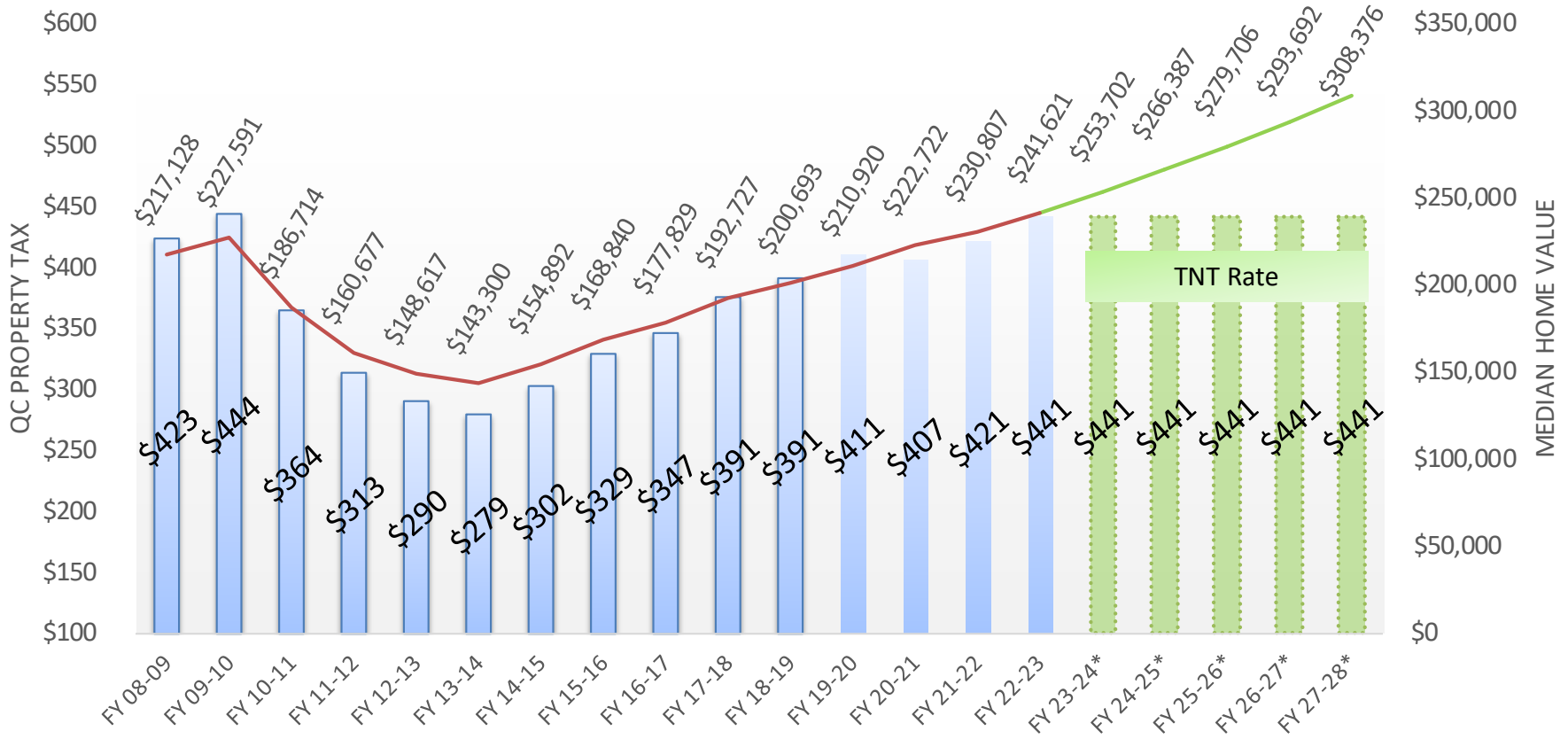


	Assessed Value (+5% Annually)	Levy Rate (-5% Annually)	Property Tax
FY 22-23	\$241K	\$1.83	\$441
FY 23-24	\$253K	\$1.74	\$441
FY 24-25	\$266K	\$1.66	\$441
FY 25-26	\$280K	\$1.58	\$441
FY 26-27	\$294K	\$1.50	\$441
FY 27-28	\$308K	\$1.40	\$441

No  
Change

In FY 27-28 (5<sup>th</sup> Year), \$122 taxes avoided (as compared to if levy rate remained at the current \$1.83)

# EXAMPLE: MEDIAN VALUE HOME AT TNT RATE



\*Assumes a 5% increase to the Median Value Each Year

# \$1.95 CAPACITY “VALUE”

Under the New Policy, “Value” is Created Because the Levy Rate Would be Below the \$1.95 Maximum

- FY 2027-28: \$6.1M (27% below \$1.95 at \$1.43)



## OPTIONS TO INCREASE TO \$1.95 LEVY IN THE FUTURE

1. Majority Roll Call Vote of the Town Council if the Annual Revenue (Levy) Increase is Less Than 15% for Existing Properties
2. Unanimous Roll Call Vote of the Town Council if the Annual Revenue (Levy) Increase is Equal to 15% or more for Existing Properties (A.R.S. 42-17107 Section A4)



# RECOMMENDATION

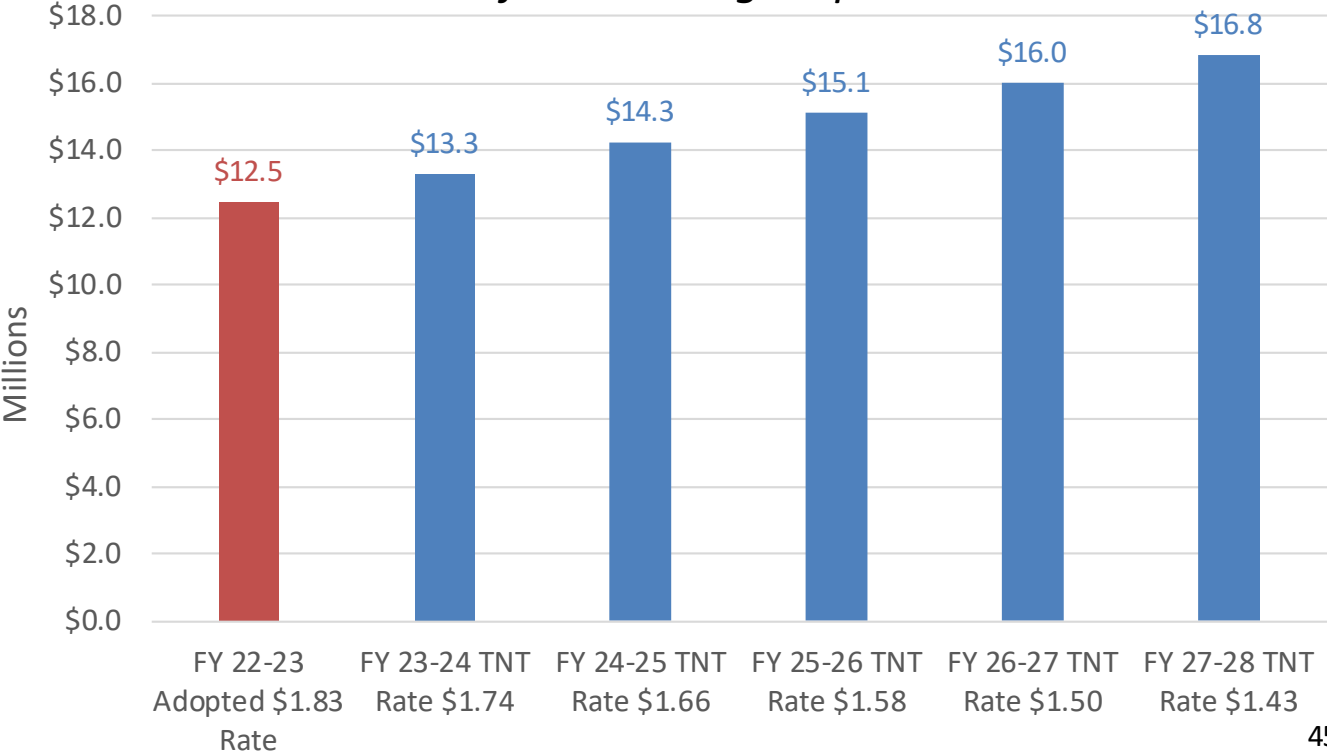


Effective FY 23-24, Create a New Primary Property Tax Policy

1. Property Taxes Will be Received from New Construction
2. Maintains the Same Primary Property Taxes for Existing Customers for 5 Years
3. Property Taxes for Existing Taxpayers Will Be the TNT Levy Rate Annually if Both of the Following are True:
  - A. The Levy Rate Exceeds \$1.40 **AND**
  - B. The Amount of Property Taxes is 20% or Higher of Expenses

# PROPERTY TAX REVENUE AT TNT RATE

*Property Tax Revenues Increase Only by New Construction, Not from Existing Properties*



# WHAT DOES THE NEW POLICY ACCOMPLISH?



- Affirms Public Safety is the Town Council's #1 Priority
  - Does Not Restrict the Ability to Increase Public Safety Expenses
- Creates Certainty for Existing Taxpayers
  - No Increase for 5 Years
- Property Tax Revenues Increase Only by New Construction, Not Existing Property
  - Foregone Property Tax Revenues (\$4.7M in FY 27-28)
- The Operating Budget Will Pay an Increasing Amount of Public Safety Expenses (a Shift in Who Pays)
  - Fewer Resources Available for All Other General Government Services
  - FY 23-24: \$0.7M, FY 24-25: \$1.5M, Increases in FY 27-28 to \$4.7M