CITY COUNCIL REPORT
PUBLIC

DATE: June 13, 2016

TO: Mayor and Council Members

FROM: Brandi Suda, Finance Director

CC: Josh Copley, Shane Dille, Barbara Goodrich, Leadership Team

SUBJECT: ADDITIONAL PROPERTY TAX INFORMATION REQUEST

This CCR is in response to a council member's questions regarding the difference between the adopted primary property tax levy and the maximum allowable primary property tax levy for the last 5 years and the impact on homeowners.

Discussion

1. Proposed primary property tax vs. maximum permissible tax

In Arizona, cities may increase the annual primary property tax by no more than 2% per year. A.R.S. § 42-17051.

The City of Flagstaff's proposed primary property tax levy for FY2017 is $5,707,178. The maximum allowable primary property tax levy is $6,301,017. In other words the City will levy $593,838 less than permissible in FY2017.

2. Cumulative effect of levying lower taxes than permissible (FY2013-2017)

The City of Flagstaff has levied less than the annual maximum 2% increase for five years in a row (FY 2013-2017). If the City had levied the allowed 2% per year during these five years (FY2013 -FY2017) the City would have levied an additional $1,728,837 in taxes (cumulative over 5 years). Table 1 lists by year the maximum allowable property tax impact (2% allowable) and its cumulative impact.

The City is not able to levy taxes retroactively. Also, the City is not able to levy the maximum annual increase in primary property taxes in FY2017, because it is too late to comply with "truth in taxation" notice and hearing requirements before adoption of the fiscal year budget. A.R.S. § 42-1710

In FY 2018 the City will be allowed an additional 2% levy giving us a capacity of an estimated $708,000 in annual ongoing revenue. For the FY 2018 Budget, Council may choose to continue a flat levy, decrease the levy, or increase the levy by any portion of this capacity.

Table 1
City of Flagstaff
Amount of Levy Under Maximum Allowed

	Property Tax 2% Increase	Taxes not Levied
FY2013	$ 108,050	$ 108,050
FY2014	$ 114,614	$ 222,664
FY2015	$ 117,595	$ 340,259
FY2016	$ 123,767	$ 464,026
FY2017	$ 129,812	$ 593,838
Total impact over five years		$ 1,728,837

3. Impact to Homeowners

Similarly, also included in Table 2 is the impact of homeowner with a home with an assessed value of $300,000 by year. In FY 2017, homeowners with this assessed value are paying approximately $26 less than if the maximum primary property tax was levied. The cumulative impact of a flat levy over the past 5 years reduced the cost to the homeowner by approximately $74. The City would have no ability to collect the amounts shown in the prior years – this is only shown to illustrate what the homeowner would have paid in those intervening years if the 2% per year would have been authorized.

Table 2
City of Flagstaff
Impact to Homeowner

Home Value = $300,000	
2% increase, year 1	$ 4.00
Year 2	$ 9.00
Year 3	$ 15.00
Year 4	$ 20.00
Year 5	$ 26.00
Total 5 year impact	$ 74.00

RECOMMENDATION / CONCLUSION

This report is for information only.