

**Minutes
Tempe City Council
Special Budget Session
June 11, 2009**

Minutes of the Tempe City Council Special Budget Meeting of Thursday, June 11, 2009, held immediately following the Formal Council Meeting at 7:30 p.m. in the Harry E. Mitchell Government Center, Municipal Building, City Council Chambers, 31 E. Fifth Street, Tempe, Arizona.

COUNCIL PRESENT:

Mayor Hugh Hallman
Vice Mayor Shana Ellis
Councilmember P. Ben Arredondo
Councilmember Mark W. Mitchell
Councilmember Joel Navarro
Councilmember Onnie Shekerjian
Councilmember Corey D. Woods

Mayor Hallman called the meeting to order at 8:25 p.m.

AGENDA

- *1. This is the **final** public hearing to adopt Ordinance 2009.23 which establishes the Fiscal Year 2009-2010 property tax rate, to be effective immediately.

DOCUMENT NAME: [20090611fsae01.pdf](#) **MISCELLANEOUS TAXES (0210-06) ORDINANCE
NO. 2009.23**

No one came forward to speak at the public hearings.

Councilmember Shekerjian asked what the rate would need to be in order to keep the tax dollar amount level from this year to next year.

Financial Services Manager Jerry Hart responded that it would be approximately \$1.37.

Councilmember Shekerjian asked Mr. Hart to explain how this particular money can be spent as opposed to sales tax money.

Mr. Hart responded that the tax rate is comprised of two portions, the primary and the secondary. In the adopted budget, the primary rate is about \$.49 and the secondary tax rate is \$.91. The primary portion of the property tax revenue can only be utilized for general City operating purposes. The City Council can choose to spend that portion of the tax revenue however they choose. The secondary portion is restricted by law for the repayment of bonds that the City issues to finance various capital projects.

Mayor Hallman clarified, given what Mr. Hart described as the primary and secondary property tax rates, that it is possible since Council took action to adjust the primary rate to the maximum amount allowed, which is now .4897 as a primary property tax rate, to keep that rate in place and merely reduce only the secondary rate.

Mr. Hart agreed.

Mayor Hallman clarified, for example, that it was \$1.37, but he thought it was closer to \$1.375. If someone wanted to keep the property tax level so the property tax bill on average was the same next year as it is this year, we could have a secondary property tax rate of .8853, and when added to the primary rate of .4897, that comes to \$1.375. The result of that would be to reduce the total collections of property tax, and in this instance secondary property tax, by about \$600K for the year. He asked how much excess secondary property tax in the CIP Budget adoption did we show over and above the amount necessary to fund our capital projects over the next five years?

Mr. Hart clarified that when staff looked over the five-year plan, there was no excess because Council has a policy where we maintain an 8% reserve in our debt service fund, and with the projected downturn in real estate values, staff's projection shows that by the fifth year of our plan, we start to go below the minimum reserve.

Mayor Hallman clarified that in the five-year plan, the total amount was about \$7.5M when the CIP was planned with the projected downturn. This year the valuations will go up on average because the valuations that are part of the property tax calculations are from a prior year. The valuations lag so that even though we are in an economic downturn and people know that their property values have gone down some, their property tax valuation will actually go up.

Mr. Hart clarified that overall, our secondary assessed valuation for FY 2009-10, per the information from the County, is going up by 4.1%. However, when you look at owner/occupied, which is basically the single family residential properties, the secondary value for the median property is projected to go down next year by 6.8%.

Mayor Hallman clarified that the total levy is the question. The median doesn't reflect average total valuation, it reflects the middle value of residences, the total increase in the tax levy, not including new construction from this year to next year.

Mr. Hart responded that it is approximately \$21M.

Mayor Hallman clarified that it is increased secondary net assessed valuation. That tells us that on average, since we are not including new construction and valuation goes up next year. The median is not necessarily the average increase. In Tempe, for example, we have seen significant reductions in high-end properties, with much less reduction over time with lower-end properties. The people being hurt the most are those who live in very modest homes. We could do, as I have advocated over the last five years, hold our levy constant so that we get out of this issue of having our property tax collections fluctuating with valuation and recognize that if we want our taxpayers to pay a flat levy so they can count on what their property tax bill will be, even though valuations went up, we could have reduced the rate and that would have given us a constant levy. We could do the same when the valuation reductions hit, and adjust the rate in the opposite direction, so property taxes remain constant. That would also allow better capital planning.

Councilmember Shekerjian stated that she would like to see the amount collected remain level as opposed to the rate, so people can count on it. She is concerned that those who are the least likely to handle a tax increase are those in more modest homes. Given that, she didn't want to see Council decrease the amount of revenue we take in, but she would like to see us maintain the amount.

Councilmember Shekerjian moved to adopt a property tax rate of \$1.375 per \$100 of assessed valuation.

Mayor Hallman clarified that is assuming that the primary tax rate remains at the rate that was previously adopted.

The motion died for lack of a second.

Councilmember Arredondo moved for approval to maintain the property tax rate at \$1.40 per \$100 of assessed valuation. Second by Councilmember Mitchell.

Mayor Hallman clarified that by not reducing the rate, we are increasing taxes.

Motion passed on a roll call vote, 5-2, with Mayor Hallman and Councilmember Shekerjian voting no.

Meeting adjourned at 8:35 p.m.

I, Jan Hort, the duly-appointed City Clerk of the City of Tempe, Maricopa County, Arizona, do hereby certify the above to be the minutes of the City Council budget meeting of June 11, 2009, by the Tempe City Council, Tempe, Arizona.

Hugh Hallman, Mayor

ATTEST:

Jan Hort, City Clerk

Dated this _____ day of _____, 2009.