

PROPERTY TAX OVERSIGHT COMMISSION

Arizona Department of Revenue Building



Douglas A. Ducey
Governor

Minutes of Meeting
December 15, 2020
Virtual meeting held on Google Meets

Grant Nülle
Chairman

Members Present (Virtually)

Grant Nülle, Chairman
Jim Brodnax, Member
Kevin McCarthy, Member
Chris Kelling, Member

Jim Brodnax Member	Kevin McCarthy Member
Chris Kelling Member	Vacant Member

Staff Present

Darlene Teller, Staff

Call to Order

Chairman Grant Nülle called the meeting to order at 1:30 p.m. and asked Commission Members and staff to state their name for the record.

Approval of Minutes

The minutes of the September 10, 2020 meeting were reviewed. No additions or deletions were recommended. Jim Brodnax made a motion to approve the minutes as distributed and Kevin McCarthy seconded the motion. Members unanimously approved the minutes.

Review school districts with primary property tax rates greater than 150% of the Qualifying Tax Rate and a combined tax rate that exceeds the 1% Constitutional limit on at least half of the residential property per A.R.S. § 42-17151

Staff member Darlene Teller presented the worksheets prepared for the Commission's review. The worksheets include school districts that adopted a tax rate greater than 150% of the Qualifying Tax Rate (QTR) and the total combined tax rate exceeded \$10 in at least half of the residential property. The full QTR is \$3.6742 for the current year with 150% equal to \$5.5113 (or half QTR is \$1.8371 with 150% equal to \$2.7557).

Twenty-three school districts met both criteria for the current year compared to 26 districts last year. Four districts are no longer restricted (Douglas Unified in Cochise County, Patagonia Elementary in Santa Cruz County, Ash Fork Unified and Seligman Unified in Yavapai County). In Yuma County, Hyder Elementary met both criteria in the current year due to their cash deficit levy but not in the previous year.

Nine districts in Cochise County met both criteria with the tax rate above \$10 applying to 100% of the residential property of the districts. The districts include Elfrida ESD #12, Bowie USD #14, San Simon USD #18, Pearce ESD #22, Double Adobe ESD #45, Ash Creek ESD #53, McNeal ESD #55, Pomerene ESD #64 and Valley Union High School District #201.

Other districts that met both criteria include Grand Canyon USD #4 in Coconino County, Young ESD #5, Tonto Basin ESD #33 and Hayden-Winkelman USD #41 in Gila County, Bonita ESD #16 in Graham County, Wenden ESD #19 in La Paz County and Mobile ESD #86 in Maricopa County.

The tax rate of \$5.3378 for Isaac ESD #5 includes \$2.3502 for the primary tax rate plus \$2.9876 for the desegregation levy that was billed as a primary tax levy. Thus, next year's primary tax rate plus any primary levy for desegregation must not exceed \$5.3378.

For Tucson USD #1, the tax rate of \$5.6429 includes \$3.8594 for the primary tax rate plus \$1.7835 for the desegregation levy that was billed as a primary tax levy. Thus, next year's primary tax rate plus any primary levy for desegregation must not exceed \$5.6429.

The remaining districts that met both criteria include Redington ESD #44 in Pima County, Mammoth-San Manuel USD #8 in Pinal County, Sonoita ESD #25 and Santa Cruz ESD #28 in Santa Cruz County and Hyder ESD #13 in Yuma County.

A worksheet that provides a three-year history was provided for the Commission's review. Letters will be sent to the 23 impacted school districts that are prohibited from increasing their primary tax rate in August 2021 with copies to the County School Superintendents, County Board of Supervisors and County Finance Directors by December 31, 2020.

Kevin McCarthy made a motion to accept the review of school districts with instructions to notify the impacted school districts. Jim Brodnax seconded the motion. The motion passed unanimously.

Review secondary property tax levies for counties, community college districts, cities and towns

Darlene presented the materials to review the debt service levies. Jurisdictions are allowed to levy an amount not to exceed the amount necessary to make the annual principal and interest payments (with a reasonable delinquency factor. The levy is net of all cash in excess of 10% of the annual principal and interest payments in the current fiscal year. All jurisdictions were in compliance with the exception of Central Arizona College in Pinal County.

Pima County reported a tax levy of \$45.9 million but adopted a levy of \$47.5 million. The difference of \$1.6 million is included in additional cash reserves. The ending fund balance was greater than anticipated when the FY 2021 tax rate was set and they will decrease the rate next year.

Central Arizona College set their tax rate with zero projected beginning fund balance. Based on information received from the Pinal County Treasurer's Office, their actual beginning fund balance was \$1.28 million (or \$290,539 from debt service accounts for outstanding bonds and \$989,395 from matured or defeased debt). The college acknowledged the \$290,539 should have been included in the calculation for setting the tax rate and would provide more information regarding the defeased debt. At this time, no additional explanation has been provided by the college. The Treasurer's Office confirmed the full \$1.28 million beginning balance was from debt service levies and available for the principal and interest payments on outstanding debt.

The City of Chandler reported a 7.3% delinquency factor and 10% for additional reserves. Last year's delinquency factor was only \$1.9%.

The beginning fund balance for El Mirage includes \$700,000 that was transferred from the General Fund over the last six fiscal years plus an additional \$100,000 for the current fiscal year in order to maintain a 25% reserve similar to other funds. Although they reported cash reserves of \$461,425 or 22% of debt service payments, the additional cash reserves over the 10% allowable is due to the General Fund transfers.

Phoenix is planning a major defeasance of debt on existing bonds to occur by 2022 (subject to market conditions and IRS rules for bonds that are not callable). As session law, the City of Phoenix is allowed to reduce any excess cash reserves through FY 2023.

A notice of violation letter will be sent to Central Arizona College for not including the \$1.28 million beginning fund balance when setting their debt service tax rate (with the caveat that the college might provide additional information regarding funds from the matured debt). The violation notice will also be sent to the County Board of Supervisors, the County Attorney and the State Attorney General.

Jim Brodnax made a motion to accept the review of the secondary property tax levies as presented and to send a violation notice to Central Arizona College. Chris Kelling seconded the motion. The motion passed unanimously.

Discuss review of prior year actual collections

Darlene described the process for collecting data from each of the County Treasurer's Office and ensuring the data provided excludes any debt service levy. If a jurisdiction collected more than their maximum allowable levy limit, violation letters would be sent and next year's levy limit would be reduced for the one-time penalty. In the past, a separate agenda item was added to approve a change in values.

The February 10 values include estimated personal property values and exemptions. In addition, tax roll corrections could increase the final values on the rolls when tax bills are printed compared to the February 10 values used for the official calculation of the tax rate and maximum allowable levy limit. Thus, districts are not collecting more than the actual amount billed but immaterial adjustments to the tax rolls might not be presented to the Commission for their review and approval.

A history of excess collections reflects minimal variances compared to the effort to collect the data and enforce the repayment in the following year. The relevant statutory and Constitution references along with the PTOC rules were noted.

Kevin McCarthy brought this issue to the Commission's attention last month and indicated further action should be considered to amend rules and statutory requirement to eliminate the review of excess collections based on the minimal impact on the tax levy. This agenda item is a discussion only so there is no action needed to be taken at this time by the Commission.

Adjourn

With all agenda items complete, Chairman Nülle asked if there was a motion to adjourn. Jim Brodnax made a motion to adjourn and it was seconded by Kevin McCarthy. The motion passed unanimously. The meeting adjourned at 2:24 p.m.