



CITY COUNCIL AGENDA

CITY COUNCIL CHAMBERS . 11465 WEST CIVIC CENTER DRIVE . AVONDALE, AZ 85323

WORK SESSION
February 5, 2018
6:00 PM

CALL TO ORDER BY MAYOR

1 ROLL CALL BY THE CITY CLERK

2. DISCUSSION OF REVENUE OPTIONS

City Council will receive information on different options to raise additional revenue for the City. For information, discussion and direction.

3 ADJOURNMENT

Respectfully submitted,

A handwritten signature in black ink that reads 'Carmen Martinez'.

Carmen Martinez
City Clerk

Council Members of the City of Avondale will attend either in person or by telephone conference call.

Los miembros del Concejo de la Ciudad de Avondale participaran ya sea en persona o por medio de llamada telefonica.

Individuals with special accessibility needs, including sight or hearing impaired, large print, or interpreter, should contact the City Clerk at 623-333-1200 or TDD 623-333-0010 at least two business days prior to the Council Meeting.

Personas con necesidades especiales de accesibilidad, incluyendo personas con impedimentos de vista u oido, o con necesidad de impresion grande o interprete, deben comunicarse con la Secretaria de la Ciudad at 623-333-1200 o TDD 623-333-0010 cuando menos dos dias habiles antes de la junta del Concejo.

Notice is hereby given that pursuant to A.R.S. 1-602.A.9, subject to certain specified statutory exceptions, parents have a right to consent before the State or any of its political subdivisions make a video or audio recording of a minor child. Meetings of the City Council may be audio and/or video recorded and, as a result, proceedings in which children are present may be subject to such recording. Parents, in order to exercise their rights may either file written consent with the City Clerk to such recording, or take personal action to ensure that their child or children are not present when a recording may be made. If a child is present at the time a recording is made, the City will assume that the rights afforded parents pursuant to A.R.S. 1-602.A.9 have been waived.

De acuerdo con la ley A.R.S. 1-602.A.9, y sujeto a ciertas excepciones legales, se da aviso que los padres tienen derecho a dar su consentimiento antes de que el Estado o cualquier otra entidad politica haga grabaciones de video o audio de un menor de edad. Las juntas del Concejo de la Ciudad pueden ser grabadas y por consecuencia, existe la posibilidad de que si hay menores de edad presentes estos aparezcan en estos videos o grabaciones de audio. Los padres puedan ejercitar su derecho si presentan su consentimiento por escrito a la Secretaria de la Ciudad, o pueden asegurarse que los niños no estén presentes durante la grabacion de la junta. Si hay algun menor de edad presente durante la grabacion, la Ciudad dara por entendido que los padres han renunciado sus derechos de acuerdo a la ley contenida A.R.S. 1-602.A.9.



CITY COUNCIL AGENDA

SUBJECT:

Discussion of Revenue Options

MEETING DATE:

2/5/2018

TO: Mayor and Council

FROM: Kevin Artz, Assistant City Manager 333-1013

THROUGH: David Fitzhugh, City Manager

PURPOSE:

Staff will present options for enhancing revenues for the City.

BACKGROUND:

On December 16, 2017, the City Council established the Council goals for the upcoming budget year (FY 2018-19). Staff presented an overview of the city's projected revenues for the upcoming year. Council directed staff to prepare an analysis for tax revenues, including an increase in the sales tax rate and an increase in the secondary property tax rate.

Sales Tax

The City Charter, Article VI, Finance and Taxation, provides for the ability to establish a transaction privilege tax (sales tax), with approval by the majority of the qualified electors voting in the election. Therefore, all of the sales tax options presented in the discussion section below would require the approval by a majority of the qualified electors.

In 2001, the voters approved a .5% sales tax increase (from 1.5% to 2.0%) dedicated to fund water, sewer, and street projects. The tax increase was applicable to all tax classifications (i.e., retail, contracting, restaurants, bars, hotels, rental property, etc.). The one exemption is for retail purchases of a single item in excess of \$5,000, the .5% tax does not apply.

In 2003, the voters approved an additional .5% sales tax increase (from 2.0% to 2.5%) dedicated to fund public safety needs. Again the tax increase is applicable to all classifications and included an exemption for single retail purchases in excess of \$5,000 (i.e., single item retail purchases over \$5,000 are subject to a city sales tax rate of 1.5%).

In 2006, the voters approved adding transit to the dedicated sales tax approved in 2001. Therefore, the .5% tax adopted in 2001 is dedicated to water, sewer, streets and transit.

Property Tax

In 2007, the voters approved a special bond election authorizing the City to incur indebtedness of \$70M for water, wastewater, street, park, public safety and general government facilities. At the time the bonds were approved, it was estimated that the \$70M in bonds could be issued over a 5-year period, without increasing the secondary tax-rate at the time of \$0.73.

In late 2007, the City began to experience the impacts of the great recession. The City's net secondary assessed valuation decreased from \$704M to \$314M from 2008 to 2013 (a decrease of 55%). As there is an inverse relationship between the tax rate and assessed valuation, the City's tax rate increased from \$0.73 to \$1.02 from 2008 to 2013 (an increase of 40%), in order for the City to continue to pay debt service on the outstanding General Obligation bonds.

Currently the City has approximately \$55.6M of remaining voter authorization outstanding (\$41.2M in GO authorization and \$14.4 in utility revenue authorization). The following table lists the remaining authorization:

<u>Year</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Remaining Authorization</u>	<u>Type</u>
1992	Loan agreement with WIFA	\$10,000,000	\$3,875,000	R
1995	Water improvements	10,000,000	3,570,000	R
1998	Water and sewer improvements	15,000,000	7,000,000	R
1998	Street improvements	10,300,000	3,250,000	GO
2007	Water and sewer improvements	5,000,000	5,000,000	GO
2007	Street and Highway	20,000,000	6,000,000	GO
2007	Parks, Community center	15,000,000	0	GO
2007	Public Safety facilities	13,000,000	10,000,000	GO
2007	General government facilities	<u>17,000,000</u>	<u>17,000,000</u>	GO
	Total	\$115,300,000	\$55,695,000	

DISCUSSION:

General Obligation (GO) Bonds

General Obligation (GO) bonds are one option for raising revenues for major capital projects. GO bonds are secured and typically repaid from secondary property taxes. There are three main constraints that must be evaluated when considering issuing GO debt, the legal debt limit, voter authorization and the tax rate.

First, the amount of indebtedness the City can incur is limited by State Constitution (legal debt limit). The Constitution limits indebtedness for GO bonds to 6% or 20% of the assessed valuation of the taxable property in the City. The 6% limit applies to indebtedness for general municipal purposes and the 20% limit applies to water, wastewater, parks and open space, streets and public safety. Based on staff's analysis, the City's legal debt margin is approximately \$100M and is not a major constraint at this time.

Second, in addition to capacity under the City's legal debt margin, voter approval is required for the issuance of GO bonds. Currently the City has \$51.4M of remaining voter authorization. However, a portion of the remaining authorization has been programmed in to the current year CIP, resulting in approximately \$41M of remaining voter authorization.

As the previous table on voter authorization demonstrates, the City has a limited amount of available voter authorization, and none available for parks or open space. If GO bonds are going to be utilized in the future, the City will need to seek approval from the voters in a bond election.

Finally, the source of repayment of GO bonds is the secondary property tax levy, and the impact of the tax rate on the property owners should be considered. The City's secondary property tax

rate is currently \$0.8499 per \$100 of assessed valuation (the combined primary and secondary rate is \$1.60). Previously, Council has established a maximum combined tax rate of \$2.00 per \$100 of assessed valuation.

A \$0.10 tax rate increase would generate an additional \$371,000 of revenue annually, based on the current assessed valuation. Annual revenue of \$371,000 would pay the debt service on approximately \$4M of debt over 20 years. Therefore, with the City's current assessed valuation, for every \$0.10 increase in the secondary property tax rate, the City would be able to issue an additional \$4M of GO debt or \$16M if the rate is increased to \$2.00.

In order for GO bonds to be a feasible option, the main constraint that must be overcome is the lack of voter authorization in the parks and streets categories. Also, there is some constraint on the tax rate and Council's policy for a maximum combined tax rate of \$2.00. In addition, when the voters approved the 2007 bond election, the financing plan was designed so that the secondary tax rate did not increase over the then existing rate of \$0.73.

Sales Tax

Staff has analyzed the City's current sales tax structure and the structure of several valley cities. Staff will analyze the following potential options: an additional restaurant and bar tax, removal of the exemption for retail purchases over \$5,000 and a general sales tax increase.

Restaurant and Bar Tax

Currently the City does not have an additional restaurant and bar tax. Five valley communities have an additional tax that ranges from .3% to 1.5%.

<u>City</u>	<u>Tax Rate</u>	<u>R&B Tax</u>	<u>Combined Tax Rate</u>
Gilbert	1.50	0.0	1.50
Scottsdale	1.65	0.0	1.65
Mesa	1.75	0.0	1.75
Tempe	1.80	0.0	1.80
Chandler	1.50	0.3	1.80
Phoenix	2.30	0.0	2.30
Avondale	2.50	0.0	2.50
Tolleson	2.50	0.0	2.50
Peoria	1.80	1.0	2.80
Surprise	2.20	1.0	3.20
Glendale	2.90	1.0	3.90
Goodyear	2.50	1.5	4.00

For fiscal year 2017, taxable sales for the restaurant and bar classification totaled approximately \$166M. Therefore, a 1.0% increase in the sales tax for restaurants and bars would generate an additional \$1.66M in revenue annually.

State Law (A.R.S. 9-500.06) establishes rules for discriminatory tax on the hospitality industry (restaurants, bars, hotels) for cities. Proceeds from a discriminatory tax are required to be used exclusively for the promotion of tourism. The law does not consider the first two percentage increase to be discriminatory. Therefore, the City could increase the restaurant and bar tax by 2% without the tourism restriction on the use of the proceeds.

Removal of exemption for retail purchases in excess of \$5,000

As discussed earlier, the City has a two-tier tax system. A retail purchase less than \$5,000 is taxed at 2.5%. If a single item exceeds \$5,000, the item is taxed at 1.5%. Removal of the exemption would result in additional tax revenue of approximately \$6.2M annually. However, half of the additional tax revenue would be dedicated to water, sewer, street and transit projects and the other half would be dedicated to public safety, as originally approved by the voters in the 2001 and 2003 initiatives.

The two-tier tax rate was established to give the City a competitive advantage with neighboring communities when the auto mall was under development. Staff believes the two-tier tax rate provided a significant advantage to Avondale when locating new dealerships in the auto mall. Glendale and Goodyear also have a reduced tax rate on single retail purchases in excess of \$5,000.

General rate increase

A general sales tax increase would impact all sales tax classifications (retail, contracting, rentals, utilities, etc.). A determination would have to be made if a general increase would be subject to the exemption for retail purchases over \$5,000.

If the voters approved an additional .1% sales tax increase, and the single item purchase in excess of \$5,000 applied to the increase, the additional tax would generate approximately \$1.6M annually. If the single item exemption did not apply to the tax increase, the additional tax would generate approximately \$2.1M annually.

Other consideration on a general sales tax increase would include determination if the additional tax would be unrestricted or dedicated to specific projects. Also, Council would need to consider if the increase would be permanent or contain a sunset clause.

Summary

All of the proposed tax increases discussed in this report would require approval from a majority of the voters. The next available election is in November 2018. The ballot language for the November 2018 election is due in May, which creates a very short timeline for a tax increase to be included in the November election. A proposed election date in 2019 or later is more feasible.

A property tax increase would provide funds to construct or acquire capital infrastructure, but does not provide funds to maintain the infrastructure. A sales tax increase would provide funds for construction and operation and maintenance of the infrastructure.

RECOMMENDATION:

This report is for information and discussion.