

IT'S BUDGET TIME!

Published annually by the League of Arizona Cities & Towns

April 7, 2016

Introduction

In this publication, we have summarized the major changes in state law that affects city/town budgets. We suggest review of this special report by all persons directly involved in the budget process. The report is being sent to city/town managers or clerks, finance directors and attorneys and is also available at our website, www.azleague.org under Resources and Research.

2016 Population Figures for Shared Revenues

Pursuant to one of the League's Resolutions, HB2483 has been introduced in the legislature and, as of this publication, appears to be on its way to enactment. The bill makes the following changes to statutes regarding population figures used for state shared revenue purposes:

- A city or town may use either the most recent population estimates from the U.S. Census Bureau or the results of a special mid-decade census (if they have conducted one) as the basis for distribution of state shared revenues for FY 2016-17.
- A city or town may only use the results of the special census for one year, and beginning on July 1 in the second year after the special census, requires the city or town to use the most recent population estimates from the U.S. Census Bureau as the basis for distribution of state shared revenues.
- The most recent population estimates of the U.S. Census Bureau must be used annually for distribution of state shared tax revenues to all cities and towns beginning on July 1 in the second year following the decennial census through June 30 of the year following the next decennial census.

Expenditure Limitations

All cities and towns in Arizona are subject to some form of expenditure limitation. However, as of March 2016, 79 cities and towns have adopted alternative expenditure limitations (home rule option or permanent base adjustment).

If you are considering proposing a home rule option for FY2017-2018 to your voters at the primary election in August or the General Election in November 2016..., you should begin your preparation this month. We have produced a 2016 Guide for an Alternative Expenditure Limitation that contains election calendars, sample reporting forms and summaries of the requirements for adopting an alternative expenditure limit. Information on alternative expenditure limits and other options to the state imposed limit is also contained in the League's *Municipal Budget and Finance Manual*.

Home rule option elections must take place at the same time as your mayor/council election. Please contact us if you have any questions about this process

Truth in Taxation

The law requires the county assessor, on or before February 10 of each year, to transmit to each city and town an estimate of the total net assessed valuation of the city or town, including new property added to the tax roll. On or before February 15 of the tax year, cities and towns must make the property values provided by the county assessor available for public inspection. If the proposed **primary tax levy amount**, excluding amounts attributable to new construction, is **greater** than the **levy amount in the previous year**, the city/town must go through the "truth in taxation" procedures. **It is very important to note that it is the levy amount and not the rate that triggers the truth in taxation procedures.**

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If the proposed levy requires "truth in taxation," the city or town must publish a notice and press release concerning the increase and hold a public hearing. The following apply to these requirements:

1. The notice has to be published twice in a newspaper of general circulation in the city or town. The first publication shall be at least fourteen but not more than twenty days before the date of the hearing for the proposed levy. The second publication must be at least seven but not more than ten days before the hearing. The hearing must be held at least fourteen days before the adoption of the levy. The hearings for truth in taxation, the adoption of the levy and the adoption of the budget may be combined into one hearing. The truth in taxation hearing must be held before the adoption of the final proposed budget.
2. The notice has to be published in a location other than the classified or legal advertising section of the newspaper.
3. The notice must be at least one-fourth page in size and shall be surrounded by a solid black border at least one-eighth inch in width.
4. The headline of the notice must read "Truth in Taxation Hearing - Notification of Tax Increase" in at least eighteen point type and the text must be in substantially the same form as the statute. (A sample notice can be found in **Exhibit H** of the Municipal Budget and Finance Manual.)
5. The city or town is also required to issue a press release with the same information that is included in the required notice.

Important Budget Note: If your city or town is subject to Truth in Taxation this year, you must adopt your tentative budget before the statutory deadline of July 15 in order to meet deadline requirements for the publication of Truth in Taxation notices (see budget calendar at the end of this report).

If your city or town is subject to Truth in Taxation this year, you must adopt your tentative budget before the statutory deadline of July 15 in order to meet deadline requirements for the publication of Truth in Taxation notices (see budget calendar at the end of this report). **roll call vote** be taken on the matter of adoption of the primary property tax levy if an increase is proposed. Following the public hearing, **the city or town must, within three days of the hearing, mail a copy of the truth in taxation notice, a statement of its publication or mailing and the result of the council's vote to the Property Tax Oversight Commission:**

Property Tax Oversight Commission
Arizona Department of Revenue
1600 West Monroe
Phoenix, Arizona 85007
Attn: Office of Economic Research and Analysis

Both the hearing and the notice can be combined with the regular budget notices. **To reiterate, even if a city/town primary property tax rate remains the same but your levy increases by more than what is attributable to new construction, perhaps because of an increase in assessed valuation, that city or town must follow "truth in taxation" notification procedures.**

Property Taxes FY 2016-2017

The Property Tax Oversight Commission (PTOC) will be reviewing the primary property tax levy of each city and town. Notice of any violation of the levy limit will be sent by September 15. You will then have until October 1 to request a hearing before the PTOC. Disputes may be appealed to the Superior Court.

You should have received a final levy limit worksheet on or before February 10 showing the city or town levy limit from your county assessor. A copy of the worksheet is sent to each city and town levying a tax as well as the Commission. **The city or town must have notified the Commission, in writing, within ten days as to whether you agree or disagree with the levy limit listed on the worksheet. If you failed to notify the Commission, they will presume that you have agreed with the limit.**

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In addition to this requirement, in early July, the PTOC will request the amount of total actual property tax collections from the prior year and collections from property which was added to the rolls as escaped property in the prior year. This information is necessary for the PTOC to properly review the levy limit calculations.

If you find that your collections exceed your allowable levy for last year, there is an Attorney General's opinion (86-031), which has been interpreted to mean that a city or town can offset the amount of involuntary tort judgments which they have paid during a tax year against any excess property tax collections. In other words, such judgments can reduce the amount you may have to subtract from your allowable levy due to excess tax collections. To take advantage of this option, you must submit to the PTOC by the first Monday in July a copy of the court order or settlement agreement of the involuntary tort judgment and the minutes of the council meeting at which payment was approved.

Prohibited Fee – A recent change to state statute prohibits municipalities from providing for any public service by levying or assessing a municipality-wide tax or fee against property owners based on the size or value of the real property or improvements unless it was adopted in compliance with the statutes governing property taxes. (Municipalities that adopted an ordinance before December 31, 2013 requiring property owners to obtain fire prevention and control services are grand-fathered.)

Government Property Lease Excise Tax

The Government Property Lease Excise Tax (GPLET) applies to buildings which are owned by a city, town or county, but leased by a private party and occupied and used for commercial or industrial purposes. This tax is the successor to the tax on possessory interests which was repealed in 1995. Counties must administer and collect the excise tax, and distribute the revenues to the county, city, school district(s) and community college district, according to a percentage distribution formula.

The 2010 legislative session saw several changes made to new GPLET Leases. Any current GPLET leases, or leases entered into within 10 years pursuant to a development agreement, ordinance or resolution approved by the governing body prior to June 1, 2010, are grandfathered in and will not be affected by the changes. For all other leases, changes include: establishing a lease term limit of 25 years while preserving the government lessors' ability to abate the GPLET tax for up to 8 years for properties located in a central business district; modifications to the definition of a central business district; new transparency requirements for government lessors in conjunction with the Department of Revenue (DOR); a transferring of the responsibility for the collection and distribution of GPLET taxes from the government lessors to the county treasurer; a scheduled audit of GPLET by the Auditor General in 2015 and a review of rates by JLBC in 2016. There is an in-depth explanation of the GPLET tax in the Municipal Budget and Finance Manual.

Development Impact Fees

ARS§9-463.05 is the statute governing municipal development fees, infrastructure improvement plans and fee studies. The statute prescribes that a municipality may assess development fees to offset costs associated with providing certain necessary public services to new development. These development fees must be: proportionate to the burden imposed on the municipality; based on items contained in a community's Infrastructure Improvements Plan (IIP); and calculated using a fee study conducted by a qualified professional.

The comprehensive 2011 law places limits on the items defined as "necessary public services" for which impact fees can be assessed. Certain categories of impact fees were prohibited as of January 1, 2012. The law requires municipalities to have new IIPs and new fee studies adopted in order to impose impact fees. The League model ordinance (available on our website) can be used as a guideline for compliance with the provisions of this law. Further detailed information regarding development impact fees is in the Municipal Budget and Finance Manual.

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HURF

As a reminder, according to A.R.S. §9-481, an audit report must include "determination" that HURF and any other dedicated state transportation revenues are being used solely for their authorized transportation purposes. We recommend that it be a written affirmation provided in your audit.

State law specifically prohibits the use of HURF monies for law enforcement or the administration of traffic safety programs but these may not be the only prohibited items. (The League has a General Counsel Opinion related to this topic.) It also gives the Auditor General authority upon request of the Joint Legislative Audit Committee to conduct performance audits on cities and towns receiving HURF monies and it establishes penalties for those jurisdictions that violate the HURF requirements. If you have any questions about your particular city or town HURF distribution, you may contact Brad Steen with the Fiscal Planning Division of the Arizona Department of Transportation at (602) 712-4637.

Financial Reports and Website Requirements

City, Town Website

As of January 1, 2013, cities and towns with a population over 2,500 are required to establish and maintain an official Internet website that is accessible to the public at no cost. Each local government website must have available comprehensive reports detailing all revenues and expenditures over \$5,000. Previously, only reports on expenditures were required. The League continues to work with the Department of Administration on compliance with this requirement, through their website, openbooks.az.gov.

State law allows municipalities to satisfy this requirement by posting a Comprehensive Annual Financial Report (CAFR) that has received a certificate of achievement for excellence in financial reporting by the Governmental Finance Officers Association (GFOA) to their website. The CAFR must be produced by a certified public accountant or a licensed public accountant who is not an employee of the local government. The report must be in accordance with generally accepted auditing standards and contain financial statements that are in conformity with generally accepted accounting principles. Therefore, municipalities must determine whether to pursue GFOA certification for their CAFR to comply with the statute or post the CAFR and provide the required expenditure and revenue information.

Publication of Local Budgets/Audited Financial Statements

Additionally, municipalities must prominently post on their websites both the adopted tentative budgets and the adopted final budgets for the last five years. These documents must be posted within seven business days of their final adoption. In 2015, a law was passed requiring that audited financial statements must be posted no later than seven business days after the date of filing the financial statements with the Auditor General and must also remain on the website for at least five years. The League also recommends posting the AELR report.

If the financial statements are not filed by March 30 of each year, the city shall post a form prescribed by the Auditor General stating the financial statements are pending, the reasons for the delay, and estimated date of completion. This form must also be filed with the Auditor General, Speaker of the House, and President of the Senate.

New or Increased Tax or Fee Posting Requirement

A municipality that chooses to levy or assess any new or increased taxes or fees must provide written notice of the change at least 60 days before the date the proposed tax or fee is approved or disapproved on the municipality's homepage of its website. This requirement does not apply to development impact fees but it does apply to an increase in the property tax rate.

Sales Tax Report

Cities and towns that do not contract with the Arizona Department of Revenue (DOR) for their tax collection must now submit a report to DOR by September 1 each year that includes the total amount of transaction privilege tax (TPT) and excise tax monies collected by the city or town from the prior year. Note: As a result of state legislation (HB2111 in the 2013 session), all cities and towns will contract with DOR for TPT collection upon completion of their computer programming and reporting systems.

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Residential Rental Tax

Municipalities are prohibited from imposing or increasing transaction privilege taxes on the rental of residential property unless the increase is approved by the voters at a regular municipal election.

Communication Relating to Elected Officials

All expenditures for communications that promote an individual elected public official that include the official's name or physical likeness must now be reported to the Arizona Department of Administration (ADOA). Communications required by statute, ordinance or rule, and activities conducted in the normal course of the local government's operations are exempt from this reporting requirement.

Informational Pamphlet Required for Bond Elections

Current law requires that an informational pamphlet be issued in connection with bond elections. The pamphlet must provide examples of how the bond will impact the taxes for a \$250,000 home, a \$1 million commercial property and on agricultural property valued at \$100,000.

Municipal Water Charges

A municipality may not seek recovery of water and wastewater charges from anyone other than an individual who has contracted for the service and resides or has resided at the service address when the residential property contains four or fewer units. A property owner, an immediate family member of the person who does not reside at the property or any other entity, at its sole discretion, may contract for water and wastewater service with a municipality and shall provide payment for such services.

Municipal Improvement Districts Reserve Fund

Cities and towns may create reserve funds to be used for municipal improvement district financing using the proceeds of special assessment lien bonds. For questions relating to this fund, please contact your financial advisor.

The Uniform Expenditure Reporting System (UERS)

The UERS report must be filed by all cities and towns no later than nine months after the end of the fiscal year. This requirement applies even if you have adopted an alternative to the state imposed expenditure limitation. The UERS report actually consists of three reports: (1) an annual expenditure limitation report; (2) a financial statement (performed when audits are done) and (3) a reconciliation report (reconciling total expenditures reported in the expenditure limitation report to total expenditures reported in the financial statement). Figures used in these reports are to be audited figures. **Since the deadline to file was lengthened to nine months, the Auditor General's Office is no longer authorized to grant extensions.** The League is recommending the posting of the UERS report along with the Audited Financial statements. Also, the statutes require that each city and town provide the Auditor General with the name of the chief fiscal officer of the community by July 31 of each year. The chief fiscal officer is responsible for filing the UERS report.

Expenditure Limit and UERS Dates

DATE	EVENT
February 1	Economic Estimates Commission (EEC) notifies cities and towns of their estimated expenditure limitation.
April 1	EEC determines the actual expenditure limitation for the coming fiscal year and notifies the city or town.
July 31	Provide name of chief fiscal officer to the Attorney General
October 31	Reports required by UERS must be submitted to the Auditor General.

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WIFA

The Water Infrastructure Finance Authority (WIFA) is charged with helping communities develop necessary water and wastewater infrastructure. For information on programs offered by WIFA please contact Melanie Ford at mford@azwifa.gov or (602) 364-1321.

Budget Forms

The Auditor General's office has budget forms have forms posted on their website for FY '17. For budget form questions, please contact Megan Smith at (602)553-0333 or asd@azauditor.gov. **(The Auditor General's Office has informed us that it is not necessary for you to send in a copy of your budgets to their office.)**

Note: Prompt attention should be given to the accurate completion of the forms due to state law that requires the forms to be posted on a municipality's website. State law requires additional information on employee compensation and benefits to be reported. In order to facilitate this, the Auditor General has included Schedule G for this information. Because a city or town is already required to post these documents to their website, you will also be fulfilling the posting requirements.

Public Deposits and Pooled Collateral

The legislature has established the Statewide Collateral Pool Administrator in the Office of the State Treasurer. The Administrator has the responsibility to prescribe and enforce policies that fix the terms and conditions under which uninsured public deposits must be secured by collateral. Uninsured public deposits required to be secured by collateral must be deposited in an eligible depository; however, the City of Phoenix, with a written notice to the Administrator, is exempt because it is a chartered city with a population of over a million people.

An eligible depository is prohibited from accepting any public deposit without the required collateral being deposited with a qualified escrow agent or the Administrator. The required collateral must be 102 percent of public deposits, less any applicable deposit insurance, and must be valued at current market value.

The legislation also established procedures for payment of losses and civil penalties for noncompliance. The Administrator is required to annually assess a fee on every eligible depository. The list of acceptable collateral that an eligible depository of uninsured public monies is required to deliver is expanded to include letters of credit issued by a federal home loan bank that have been delivered to the Administrator and meet other specified requirements. If you have any questions about this program, you may contact the Arizona State Treasurer's Office at (602) 542-7800.

Social Security Rates

Contributions to Social Security are divided into two segments - old age and survivor benefits, and Medicare. The current contribution rate for the first segment is 6.2% for employees and 6.2% for employers, on the first \$118,500 of salary. The contribution rate for the second segment is 1.45% and there is no maximum salary threshold. These rates are current through calendar year 2016.

ASRS Contribution Rate

For those of you in the state retirement system, the contribution rate for FY17 is a 50/50 split: Employees must contribute 11.34% for retirement and 0.14% for long-term disability; and employers contribute 11.34% and 0.14%, respectively.

Additionally, state law requires ASRS to administer an Alternate Contribution Rate (ACR) to ASRS participating employers that employ ASRS retirees who return to work. The law requires that an ACR be charged to and paid for by the employer, which applies to all ASRS retirees who return to work for an ASRS employer regardless of early or normal retirement status, and regardless of the number of hours worked in a pay period. For Fiscal Year 2016-17 beginning July 1, 2016, the ACR will be 9.47%.

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PSPRS Contribution Rate

Changes were made to PSPRS rates in the 2011 session that increase contribution rates for employees. The rate schedule in FY'17 will be 11.65% or a split of 1/3 for employees and 2/3 for employers, whichever is lower. To find your employer rate for FY'17, please call PSPRS at (602) 255-5575. Note: SB1428 from the 2016 legislative session creates a new Tier 3 for PSPRS employees hired after July 1, 2017. The contribution rate for all future employees will be shared on a 50/50 basis.

If a retired PSPRS member returns to work in a PSPRS covered position, the employer is required to pay an alternate contribution rate (ACR). The ACR will be determined annually by the actuary and will cover the unfunded liability portion of the total contribution, except that the ACR will have an 8% minimum contribution.

Consumer Price Index

In preparing your budget it may be useful to compare previously budgeted items with the ones anticipated for the upcoming fiscal year. To aid you in doing this, listed below is the Consumer Price Index (CPI) for the United States West area. The index is published by the United States Department of Labor, Bureau of Labor Statistics.

Using the index will allow you to compare budget items from previous years by adjusting for inflation. To convert any amount from a prior year to FY 13-14 dollars simply multiply the amount by the FY 14 factor for that year. For example, to convert a \$10 purchase made in FY 04-05 into FY 13-14 dollars you would multiply \$10 by the FY 14 factor for FY 04-05, which is 1.22, giving you a cost of \$12.20.

West Urban Areas Consumer Price Index (1982-84 = 100)		
<u>Fiscal Year</u>	<u>Index for all Items</u>	<u>FY14 Factor</u>
FY 05-06	198.9	1.21
FY 06-07	205.7	1.17
FY 07-08	212.2	1.13
FY 08-09	219.6	1.10
FY 09-10	218.8	1.10
FY 10-11	221.2	1.09
FY 11-12	227.5	1.06
FY 12-13	232.4	1.03
FY 13-14	235.8	1.02
FY 14-15	240.2	1.00

I hope the information in this report will be of use to you in the preparation of your budget. If you have questions or need additional assistance, please contact me.

Tom Belshe, Deputy Director
(602) 258-5786
tbelshe@azleague.org

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2016-2017 Budget Calendar

ACTION	Deadline for FY 2016-2017	Earliest Date FY 2016-2017
1. Compile pertinent budget information.	None	None
2. Distribute budget instructions, information and work sheets to department heads. (A general meeting with department heads could be held at this time if desired.)	None	None
3. Complete compilation of the forthcoming fiscal year's revenue estimates including debt service requirements, etc.	None	None
4. Submit departmental budget estimates to appropriate reviewing official or office. Review of departmental budgets and revenue estimates by appropriate reviewing official or office. (An individual hearing with each department head may be held in conjunction with the review step.)	None	None
5. Make approved changes and prepare summary of tentative budget.	None	None
6. Begin preparation of proposed budget.	None	None
7. Receive from the county assessor certified property values necessary to calculate the property tax levy limit and the final levy limit worksheet. (A.R.S. 42-17052)	On or before February 10 of the tax year.	None
8. Notify the Property Tax Oversight Commission as to agreement or disagreement with the property tax levy limit. (A.R.S. 42-17054)	Within 10 days of receiving information in no. 7 (above).	None
9. Make the property values provided by the county assessor available for public inspection. (A.R.S. 42-17055)	On or before February 15 of the tax year.	None
10. Deliver proposed budget to city council for review.	None	None
11. Post notice on the city/town website that council will consider an increase in the property tax rate on the date of the budget hearing. (A.R.S. 9-499.15)	May 19 or 60 days before budget hearing.	None
12. Submit information on involuntary tort judgments and appropriate documentation to the Property Tax Oversight Commission for consideration. (A.A.C. 15-12-202)	July 1	None
13. Adopt tentative budget. (A.R.S. 42-17101)***	July 18	None
14. Publish a summary of the tentative budget once a week for two consecutive weeks. Also include time and place of budget hearing and a statement indicating that the proposed budget may be examined at city/town library and city/town hall. (A.R.S. 42-17103)	Depends upon newspaper publishing date.	None
15. Publish first "Truth in Taxation" notice in a paper of general circulation in the city or town and issue a press release with the same information as the published notice.* (A.R.S. 42-17107)	July 18	None
16. Publish second "Truth in Taxation" notice in a paper of general circulation in the city or town.** (A.R.S. 42-17107)	July 25	None
17. Post entire tentative budget (Schedules A-G) on website and keep it posted for at least 60 months. (A.R.S. 42-17105)	July 27	None

* Only necessary if the proposed property tax levy, excluding amounts attributable to new construction, is greater than the amount levied by a city or town in the previous year. In lieu of publishing the notice, a city or town may mail the notice to all registered voters at least 10 days but not more than 20 days before the hearing.

** This must occur on or before the day on which the board of supervisors levies the county tax. Check with your county board of supervisors as to their deadline for receiving your levy. Dates may change to confirm to their schedule.

*** Entire tentative and final budgets (Auditor General Forms) must be posted on website within 7 business days of adoption and remain on the website for 60 months.

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2016-2017 Budget Calendar

ACTION	Deadline for FY 2016-2017	Earliest Date FY 2016-2017
18. Hold public hearing on budget and property tax levy (can be combined with truth in taxation hearing).	August 1	None
19. Convene special meeting to adopt final budget. (A.R.S. 42-17105)***	August 1	None
20. Mail a copy of the truth in taxation notice, a statement of its publication or mailing and the result of the council's vote to the Property Tax Oversight Commission. (A.R.S. 41-17151) Property Tax Oversight Commission 1600 W. Monroe Phoenix, AZ 85007	August 4	None
21. Adopt property tax levy. (A.R.S. 42-17151)	August 15	None
22. Post entire final budget (Schedules A-G) on website and keep it posted for at least 60 months. (A.R.S. 42-17105)	***	
23. Forward certified copy of tax levy ordinance to county. (The tax levy must be adopted by the board of supervisors on or before the third Monday in August - A.R.S. 42-17151 A.)	**	None

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