

# IT'S BUDGET TIME!

Published annually by the League of Arizona Cities & Towns

March 13, 2013

## Introduction

In this publication, we have summarized the major changes in state law that affect city and 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 so it may be necessary for you to copy the report in order to distribute it further. This report is also available at our website [www.azleague.org](http://www.azleague.org) under Resources and Research.

## 2010 Census Population Numbers

The 2010 Census numbers are used this year as the official population designation for shared revenue calculations. Preliminary estimates for shared revenue, as well as population figures for FY 2013-14, are contained in the accompanying report entitled "State Shared Revenue."

Note: The U.S. Bureau of the Census has suspended their program of certifying official census populations for annexations. The Geographically Updated Population Certification Program was scheduled to resume this year, but it is not yet clear when. If you have any questions about this program, please contact us.

## Expenditure Limitations

All cities and towns in Arizona are subject to some form of expenditure limitation. However, as of March 2013, 78 cities and towns have adopted alternative expenditure limitations or modified their expenditure limits in some way. Some communities have adopted a pure home rule option stating that each year the council will, after a public hearing, set the coming year's expenditure limitation. This is a reminder to pure home rule communities that now is the time to set your FY2013-2014 expenditure limit by the date specified in your particular home rule language. Be sure to set your limit to include all expenditures. Currently, there are no excludable items under pure home rule.

If you are considering proposing a home rule option for FY2014-2015 to your voters in the spring of 2014, you should begin your preparation this fall. We will produce a 2014 Guide for an Alternative Expenditure Limitation that contains election calendars, sample reporting forms and summaries of the requirements for adopting an alternative expenditure limit. It is currently set to be published in early summer. 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.

The 2010 Legislative session added a provision to statute relating to the expenditure limitation and capital improvements. Cities and towns that make expenditures for capital improvements from utility revenues and/or from excise taxes levied for a specific purpose are not deemed to have exceeded the expenditure limitation contained in the Arizona Constitution, provided that the expenditure is repaid from the proceeds of bonds or other long-term obligations before the hearing held by the Auditor General that determines if any city or town has exceeded their expenditure limitation.

## 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. 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 triggers "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 14 but not more than 20 days before the date of the hearing for the proposed levy. The second publication must be at least seven but not more than 10 days before the hearing. The hearing must be held at least 14 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 18-point type and the text must be in substantially the same form as the statute. (A sample notice can be found in Exhibit L 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).

The law also provides that in lieu of publishing the notice, it may be mailed to all registered voters in the city or town at least 10 but not more than 20 days before the hearing on the proposed levy. It also requires that a **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 2013-2014

The Property Tax Oversight Commission (PTOC) will again 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 the 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 then have notified the commission, in writing, within 10 days as to whether they 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.

## Government Property Lease Excise Tax

The Government Property Lease Excise Tax (GPLET) applies to buildings that 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 that 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 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 Arizona Department of Revenue (DOR); a transferring of the responsibility for the collection and distribution of GPLET taxes from the government lessors to the county treasurers; 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.

## Update on Development Fees

SB 1525 from the 2011 legislative session brought substantive changes to statutes governing municipal development fees, infrastructure improvement plans and fee studies. Current statute prescribes that a municipality may assess development fees to offset costs associated with providing necessary public services to new development if the fees result in a beneficial use to the development and the monies received are used only for an authorized purpose. 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 professional consultant. Any monies received from development fees are required to be used to provide the same category of services in the service area for which the fees were assessed.

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; however, if they were being collected prior to that date, they may continue in force until August 1, 2014. The law requires municipalities to prepare new IIPs and conduct new fee studies by August 1, 2014. Since it takes nearly a year to hire a consultant, conduct a fee study and adopt the fee schedule due to the required notice periods in the statute, any city or town planning to continue an impact fee program after August 1, 2014 should be undertaking the process as soon as possible. The League has prepared a model ordinance that can be used as a guideline for compliance with the new provisions of this bill. To view the model ordinance, please [click here](#). For more information on SB1525, please see the [2011 New Laws Report](#) on the League's website.

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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.

Remember that state law specifically prohibits the use of HURF monies on law enforcement or the administration of traffic safety programs. 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

Legislation enacted during the 2010, 2011 and 2012 sessions amended and added rules regarding publication and submission of certain financial notices and reports, as well as amended rules pertaining to the creation of local government websites.

### **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 is working with the Department of Administration (DOA) on implementation of this issue, through their website, <http://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 (GAAS) and contain financial statements that are in conformity with Generally Accepted Accounting Principles (GAAP). 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. Qualifying municipalities without websites may post the necessary information on the website of the League of Arizona Cities and Towns. By April 1, cities and towns must decide which option they will choose: the DOA website; their own city or town website; or the posting of an award-winning CAFR. If a city or town elects to not utilize the DOA site, a link to the CAFR or city or town website must be provided to the state for posting on the AZ Open Books site.

### **Publication of Local Budgets**

Additionally, municipalities must prominently post on their websites revenue and expense estimates and adopted budgets for the last five years. These documents must be posted within seven business days of their final adoption. Municipalities without websites shall utilize the website of the League of Arizona Cities and Towns.

### **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 property taxes, county capital improvement plans, and city infrastructure improvement plans.

### **Property Tax Levy Report**

Cities and towns preparing to have a public hearing on a property tax levy must publish a report that includes estimates of both expenditures and revenues related to the levy. This report must be published in a newspaper, on the city or town's website, and made available at libraries and administrative offices. The newspaper publication must also include a physical address for the library and the city or town website address. If a municipality's levy is set to increase, the city or town must provide 60-days' notice on its website.

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## **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. Additionally, local governments must now report all incurred debt to DOR based on a schedule determined by DOR.

## **Residential Rental Tax**

State law enacted in 2011, created changes for the way a city or town may impose 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 (DOA). 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 and a \$2.5 million commercial property. This measure requires the pamphlet to also provide an example of the impact on agricultural property valued at \$100,000. Additionally, the example value for commercial property is reduced to \$1 million. For more information, see the [New Laws Report](#) on the League's website.

## **Municipal Water Charges**

Also passed during the 2011 Legislative session, for residential properties of four or fewer units, 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. 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**

The 2010 Legislature allowed for the creation of reserve funds to be used for municipal improvement districts financing using the proceeds of special assessment lien bonds. For questions relating to this new fund, please contact your financial services director.

## **The Uniform Expenditure Reporting System (UERS)**

The UERS report must be filed by all cities and towns no later than four 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. To meet the four month filing deadline, you should contact your auditor soon after the close of the fiscal year. If you cannot meet the October 31 filing deadline, an extension of up to 120 days may be granted by the Auditor General. Such an extension must be requested in writing.

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.

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## 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 unless an extension is requested (in writing) and approved.

## 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](mailto:mford@azwifa.gov) or (602) 364-1321.

## Budget Forms

The Auditor General's office has informed us that the new budget forms have yet to be sent out to cities and towns, but are expected soon. For budget form questions, please contact Michael Stelpstra at (602)553-0333 or [asd@azauditor.gov](mailto:asd@azauditor.gov).

Note: It is important that when received, attention is given to the accurate completion of the forms due to state law that requires the forms to be posted on a municipality's website. New state law requires additional information on employee compensation and benefits to be reported. In order to facilitate this, the Auditor General will provide a place to report this information on their budget schedules. Because a city or town is already required to post these documents to their website, you will also be fulfilling the posting requirements.

## 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 percent for employees and 6.2 percent for employers, on the first \$113,700 of salary. The contribution rate for the second segment is 1.45 percent and there is no maximum salary threshold. These rates are current through calendar year 2013.

## ASRS Contribution Rate

For those of you in the state retirement system, the contribution rate for FY14 is a 50/50 split: Employees must contribute 11.3 percent for retirement and 0.24 percent for long-term disability; and employers contribute 11.3 percent and 0.24 percent, 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 2013-14 beginning July 1, 2013, the ACR will be 9.2 percent. For more information, please refer to (A.R.S. § 38-766.02).

## PSPRS Contribution Rate

Changes were made to PSPRS rates in the 2011 session that increase contribution rates for employees. The rate schedule is 9.55 percent for FY13; 10.35 percent for FY14; and 11.05 percent for FY15. For all subsequent fiscal years, the contribution rate will be 11.65 percent or a split of 1/3 for employees and 2/3 for employers, whichever is lower. The employee contribution rate, however, cannot be below 7.65 percent. To find your employer rate for FY14, please call (602) 255-5575 or visit: [http://www.psprs.com/Admin\\_Investments\\_and\\_Finance/cato\\_Actuarial\\_individual\\_rpts.html](http://www.psprs.com/Admin_Investments_and_Finance/cato_Actuarial_individual_rpts.html)

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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 percent 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 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 12-13 dollars simply multiply the amount by the FY 13 factor for that year. For example, to convert a \$10 purchase made in FY 03-04 into FY 12-13 dollars you would multiply \$10 by the FY 13 factor for FY 03-04, which is 1.23, giving you a cost of \$12.30.

### **West Urban Areas Consumer Price Index (1982-84 = 100)**

<u>Fiscal Year</u>	<u>Index for all Items</u>	<u>FY13 Factor</u>
FY 03-04	188.6	1.23
FY 04-05	193.0	1.20
FY 05-06	198.9	1.17
FY 06-07	205.7	1.13
FY 07-08	212.2	1.10
FY 08-09	219.6	1.06
FY 09-10	218.8	1.06
FY 10-11	221.2	1.05
FY 11-12	227.5	1.02
FY 12-13	232.4	1.00

I hope the information in this report will be of use to you in the preparation of your budget. If you have any questions or if I can be of assistance, please give me a call.

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

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## 2013-2014 Budget Calendar

ACTION	Deadline for FY 2013-2014	Earliest Date FY 2013-2014
1. Complete compilation of forthcoming fiscal year's revenue estimates, including debt service requirements, etc.	None	None
2. 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
3. Make approved changes and prepare summary of tentative budget	None	None
4. Deliver proposed budget to city council for review.	None	None
5. Receive from the county assessor certified property values necessary to calculate the property tax levy limit.	February 10	None
6. Make the property values provided by the county assessor available for public inspection	February 15	None
7. Notify the Property Tax Oversight Commission as to agreement or disagreement with the property tax levy limit.	February 20	None
8. Submit information on involuntary tort judgments and appropriate documentation to the Property Tax Oversight Commission for consideration.	July 1	None
9. Adopt tentative budget. (For those cities and towns subject to Truth in Taxation, the deadlines in #11 and #12 of this calendar will require the tentative budget to be adopted before July 15)	July 15	None
10. Publish budget once a week for two consecutive weeks. Also include time and place of budget hearing and a statement indicating where the proposed budget may be examined.	Depends upon newspaper publishing date	None
11. 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 included in the required notice. *	July 22	None
12. Publish second "Truth in Taxation" notice in a paper of general circulation of the city or town.*	July 29	None
13. Hold public hearing on budget and property tax levy. (Also "Truth in Taxation" hearing if necessary) Convene special meeting to vote on Truth in Taxation, if applicable, and adopt the final proposed budget.	August 5**	None
14. Mail a copy of the truth in taxation notice, a statement of its publication and result of the council's vote to the property tax oversight commission.	August 8	None
15. Adopt property tax levy.	August 19**	July 17
16. Forward certified copy of tax levy ordinance to county. The tax levy by the board of supervisors must be made on or before the third Monday in August, A.R.S. § 42-17151 A.)	August 19*	July 27

\* Only necessary if the proposed primary property tax levy, excluding amounts attributable to new construction, is greater than the amount levied by a city or town in the previous year.

\*\* Check with your county board of supervisors as to their deadline for receiving your levy. Dates may need to change to conform to their schedule.