



CITY OF SURPRISE
City Council Budget Kick Off
Ottawa University Surprise Campus
15950 N. Civic Center Plaza
Surprise, AZ 85374
Thursday, January 25, 2024 @ 4:15 PM
Classrooms: 210 & 212
SUMMARY MINUTES

- A. Call To Order @ 4:15PM
- B. Roll Call - **PRESENT: MAYOR HALL, VICE-MAYOR HANEY, COUNCILMEMBERS JUDD, CLINE, DUFFY, REMLEY AND HASTINGS**

- C. Pledge of Allegiance
- D. Regular City Council Work Session Agenda

CONSENT AGENDA: **N/A**

REGULAR AGENDA ITEM - NON-PUBLIC HEARING:

- 1. Citywide Presentation and discussion pertaining to the Fiscal Year 2025 operating budget. Bob Wingenroth
City Manager Office

Bob Wingenroth, City Manager started the meeting with an ice breaker activity asking 5 questions to Council. Bob explained their answers were meaningful and why we are grateful for the leadership during this complex budget year. Bob summarized the prior discussion for tax reform and possible elimination of primary property tax rate and what the impact would be. Interactive spreadsheet to assist with showing different % results. If there is time at the end of the presentation for questions or opportunities to speak to any of the directors or request one on one meetings to get further clarification on any budget item. Expectation to have future budget presentations at upcoming Regular Council Meetings.

Andrea Davis, Chief Financial Officer – Presentation – Property tax suggestion to eliminate and increase sales tax residential vs commercial break down programs; Estimates for all tax 12.8mil expected FY25; breakdown of residential 10.2% commercial (non-residential) 2.6mil; graph for sales tax vs prop tax trend; Property tax is slow steady growth; removal of property tax is very difficult and nearly impossible to bring it back with state statute of limitations. Sales tax increase estimates revenue generated .1% rate increase shown; retail is more significant compared to other categories. Scenario shown breakdown of current increase (removed development agreement rates) to show net proposed tax rate elimination of \$10.2 mil (residential portion) \$6.6 mil reduction from residential rental = \$16.8mil recovery from reform. Transient lodging 4.52% is not included in revenue assuming not increasing this rate as higher than others; no increase tourism fund gets 3.5 % not general fund so not included in analysis. Proposed tax rate vs average of other cities is 2.75% also shown by category. To recover \$16.8mil used 2.9% including bar and restaurant. Down from 3.2% to get as close as possible. Could leave it without change.

CM Judd – Is restaurant and bar at 3.2% tax or 1 plus base tax? Andrea confirmed it is 3.2% tax rate

Andrea Davis - continued presentation scenario shown elimination residential and commercial \$12.8 mil plus 6.6 = 19.4 recovery needed (used 3.0% for all) =19.8 generated

CM Remley – If we were to roll forward property tax decrease and population increase over 10 years excluding commercial would be \$32 million to make up for; would have to come from somewhere else, just pointing out bigger numbers (double) would be moving forward.

Andrea Davis – Graph showing property tax; sales vs property tax, property tax is steady with a cap on growth; times of decrease (statute limits to 5% per year increase) if city is not growing it remains flat; sales tax is more volatile up and down with economy, both increasing overall.

CM Remley – I agree, but we are still talking about consumers with today's dollars and with double population the problem is then double; no property tax with city twice as large would be larger deficit assuming inflate at the same rates.

CM Judd – What was the 2015 property tax rate? Andrea – same rate .7591 How many dollars? Also, for year 2024 for both years sales tax and prop tax dollars.

Andrea Davis – Team is working on the numbers for you now. Consider legislation, if removal of other tax categories we are limited; to get back need to max rate every year over 10 years; harder to offset without prop tax base; another diversified source of income.

Jen Medina - FY 2015 sales tax budget \$36,782,751; property tax budget \$6,479,210; 2024 sales tax budget \$85,782,600 property tax budget \$11,789,000

CM Judd – Went from 6.5 to 11.8; 36.8 to 85.8 so which is more valuable to us? If in 10 years they double at same scale.

Bob Wingenroth – For humor we would need Jeanine around to continue to give us the same type of growth.

Mayor Hall – Sales tax more than doubled.

CM Cline – But you can't guarantee performance; Just a thought of what is going away is a form of sales tax - residential rental is considered a sales tax correct? (Andrea confirmed) so the comparison to replace sales tax with a sales tax seems to make more sense.

CM Remley – Most common criticism from residents is "I pay my taxes" which they are talking about paying property taxes. COS is lowest in west valley and proud of it. Only increases 2.5% of the needs of the city; we need something that grows at a similar rate as inflation. property tax will not.

Mayor Hall – Example Prasada shopping center; Many people who are not residents spend their funds there.

CM Judd – I would guess half at least?

Mayor Hall - The sales tax is not being burdened by residents, but property taxes are.

Bob Wingenroth – In general, where we started last week the ask for consideration was to replace \$6.6 mil.

Mayor Hall - What is the slide shown?

Andrea - Scenario of just increase sales tax showing retail moved to 2.6% with all others staying the same gets us there.

Mayor Hall - that shows we recover almost \$7 mil.

CM Hastings – 3 options; not sure about eliminating commercial, if so like a tiered plan, different conversation; Prefer First option of give and take simply to add back as sales tax not exactly the goal; like idea of cutting property tax. Question would it effect school funding?

Andrea Davis - No – Only the primary property tax removed.

CM Hastings – good idea, relives pressure on homeowners in favor of first proposal.

Bob Wingenroth – Clarification, this also applies to apartment owners.

CM Hastings – it depends on what passed it on

Mayor Hall – think market forces will do that; apartments on market concessions.

CM Haney – Is it possible to decrease property tax without eliminating it? Discussion to share burden provide relief to reduce and relief to residents.

Andrea Davis – show easy math to use $\frac{1}{2}$ and described how to review spreadsheet to show variance – property tax rate .5 to reach the revenue goal

Bob Wingenroth – Can show the example on the spreadsheet.

CM Remley – It's like a balloon - remove something need to increase something; we have lowest property tax in west valley; people don't know what city gets from the property tax will still get 95% they just know they pay their taxes. Seems to be most sensitive item.

CM Haney – Would like to show reducing the property and increase sales tax.

Andrea Davis – Described the screen to get to 13.

Mayor Hall – about 1.8 per tenth right

CM Judd – roughly 3mil per tenth

CM Hastings – is this commercial or residential editing?

Bob Wingenroth – will show cut in half.

Andrea Davis – showed different options.

Bob Wingenroth - 2.75% average COS would be at 2.65 lowest of west valley in comparison to other cities.

CM Hastings – When people complain about taxes not usually about sales tax; unique to make a bad situation better with elimination of property tax is a huge item; cut in half or eliminate and rely on sales more.

CM Haney – with the legislature, will they go after sales; fear to eliminate and not recover.

CM Hastings – not make that much with property tax, understand not guaranteed but not much comes from property taxes; complaints are mostly property tax.

Mayor Hall – like the idea but trying to get it back if we need it down the road.

Andrea Davis – for reference 75.00 for each \$100,000 value is approx.: 150 per year average.

Mayor Hall – reviewed bill 10% assess valuation property tax 2,400 year (8% is 200.00)

Andrea Davis – Clarified other taxes are included.

Mayor Hall – example would save 200 per year?

CM Hastings – Bond revenue give people control over their property tax.

CM Judd – would be more space for future bonds.

CM Remley – county residents do not have to pay – what they pay instead services the tax was intended to provide for (fire / ambulance etc.) elimination of property tax means eliminating services.

Mayor Hall – Example: Fire in Waddell are we reimbursed under contract?

Fire Chief Brendan Espie - No; technically no obligation to respond; typically dispatched to rural metro; 911 will route call; No reimbursement unless “requested” 9 times out of 10 if we bill, they will deny; for ambulance service, most home insurance requires homeowner to contract (not required) they will charge – average rate \$1300 year per house.

Mayor Hall - Sentiment among council seems to be to cut property tax but how much? What do you want to do.

CM Cline – The last increase for primary property tax was when?

Andrea Davis/Mayor Hall maybe 2010? or further back

CM Remley – fought to keep in low over years.

Andrea Davis - 2015 we lowered the rate; 2014 increased.

Bob Wingenroth – We are hearing the same as reduction or elimination of primary property tax; raise sales tax; tax increase requires notice.

Andrea Davis – Any increase in sales tax requires notice of intent; post asap and next meeting to take action.

Mayor Hall – that would be first meeting in April?

Andrea Davis - property tax included in package – notify county sales tax effective July 1 so same time frame and property tax timeframe or we will lose funds if wait til January.

Mayor Hall – ask of Jeanine to describe if known of 80k what is discretionary spending? Do you know? Jeanine - We know the number is growing; made up super demand and demand is growing – population meets demand.

Mayor Hall – as an example to raise sales tax if you spend 100.00 at Walmart = 0.70 increase

CM Judd – this goes back to understanding what is being spent.

CM Haney – anticipates other cities to increase sales tax might mean more middle than now.

CM Hastings – what are other cities doing? Interested in knowing.

Mayor Hall – all being very vague in decisions; going through same thing we are.

CM Haney – on paper we would be inline; impact on residents minimal; no services harmed.

CM Judd – Question earlier on legislature reaching out for sales tax; that seems unrealistic.

Narrative seems like this is what they are trying to do by removing the residential rental.

Mayor Hall – Multifamily owners will now benefit too.

CM Remley – Those get double dipped now.

CM Duffy – the bottom line is we are running a business and eliminating a revenue string you need to stay diversified; eliminating property tax is huge no; people depend on numbers; very careful of elimination.

Mayor Hall – More in favor of cut in half? Reducing it.

CM Cline – Even if slightly reduced, benefit since very difficult to bring it back; rental owners won't pass savings to the renters; loss of revenue forever.

Mayor Hall – What is the psychological difference or Reducing vs Eliminating?

CM Judd – Careful message because of Secondary property tax.

CM Hastings – total budget general fund what % is property tax?

Andrea Davis – 2% is an overall small part of the pie but remains diversified. Bigger concern legislation possibly looking at other factors to eliminate other categories to offset.

CM Hastings – whatever we do is a net increase.

Andrea Davis – actually net neutral to replace lost revenue and make up \$6.6mil

CM Hastings – would rather eliminate.

CM Haney – we cannot eliminate revenue sources; good compromise pathway forward growing city and services; agree with CM Hastings to provide relief to resident's reduction by 50% to get there; worried to eliminate with possible legislature goes after other revenue sources. Residents complain about reduction of services. Sales tax increase shares burden not negative impact on residents.

Mayor Hall – around for 16 years; 1 resident complain about restaurant bar tax; it's higher than others but not an issue with people; suggest to not reduce restaurant bar tax

CM Judd – Agree

Andrea Davis / Bob Wingenroth – DONE

CM Judd – Property tax reduction scale down until it goes away.

Andrea Davis – Need to increase sales tax each year.

CM Duffy – Unless state replaces it.

CM Judd – the state could say don't like property tax.

CM Cline - not in near term

Jeanine Jerkovic – information re: previous discussion 25-30% outside of city spending; Income increase average 96k per household for COS.

Mayor Hall – Example of average family, how much would family of 4 be impacted if raised .55%, what would that be in \$/year.

CM Remley – 160k people / 40k household (divide 6mil by 40k household)

Mayor Hall – Trying to get to a discretionary number how to figure out what that impact is?

Robert Wingo – Clarification for discussion; If property tax is abolished, to reinstate it you would have to go to voters to reinstate and establish the base rate.

CM Hastings – prefer elimination; to max tax requires unanimous vote, correct? Andrea - Yes to cut half to reduce now as compromise city stays diversified.

Mayor Hall - agree good compromise residential cut in half.

CM Remley – impact on family is \$1,000 per year.

CM Judd – instead of cut could we give a rebate? Could we give it that way? No revenue

Andrea Davis – yes, we could rebate, but more staff and postage – administration to get that done would be manual process.

Mayor Hall – good point, cut in half – what would residents see (2 installments per year)

Andrea Davis – they would see half effective November which is why effective date would be July 1

CM Judd – clarify residential tax elimination on January 1?

Andrea Davis – Eliminate early July 1 to offset loss replace and swap with property tax rate and adjusted for revenue.

CM Judd – Ok

CM Hastings – Can you put this scenario on screen; showing ½ property tax and below average of other cities.

Andrea Davis - is showing 3.2% or 2.72%

Proposal to decrease property tax and increase sales tax to move forward.

Bob Wingenroth and Department Directors applause for proposal.

Bob Wingenroth – We will begin the notification process, any questions for staff?

Mayor Hall – Council should meet individual with anyone they have questions.

Bob Wingenroth – Ok, we are ready.

CM Judd – Is there need for discussion on programs?

Bob Wingenroth – discussion not needed.

End of Discussion

F. Adjournment **M: CM JUDD 2ND CM HASTINGS**
@ 5:23PM