



MEMORANDUM

Date: November 4, 2019

To: The Honorable Chairman and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator *CHH*

Re: **November 5, 2019 Board of Supervisor Addendum Item 3, Discussion and Possible Action Related to District 1 Property Tax Error for the Foothills School District**

In the attached October 23, 2019 memorandum, I reported to the Board of Supervisors that an error was made that impacts the Fiscal Year (FY) 2019/20 secondary property tax levy for the Catalina Foothills Unified School District No. 16. The item has been placed on the November 5 Agenda of the Board of Supervisors for discussion and possible action.

While an error was made on the property tax billing statement, it is important to note that, first and foremost, the students and taxpayers of Catalina Foothills will receive the services for which they voted. The District will get the money from Pima County when scheduled.

How did the error occur?

The tax levy process is as follows:

- School Districts approve their budgets and submit them to the School Superintendent's Office.
- The School Superintendent's Office compiles the School District Tax Levies and Rates and sends them back to the School Districts for review and approval.
- The School Superintendent's Office submits the School District Tax Levies and Rates to the Budget Division of the Pima County Finance and Risk Management Department.
- The Budget Division adds the School District Tax Levies and Rates to the County's Tax Levies and Rates and submits them to the Board of Supervisors for approval.

An error was made in the submission by the School Superintendent's Office that was not noticed by the District or the Budget Division prior to submission to the Board of Supervisors.

How do we ensure than an error does not again occur?

To ensure that an error does not occur in the future, the School Superintendent's Office is instituting a new process that will include more levels of review, one on one meetings with each School District, and formal sign off from the various parties. In addition, the Finance Department is going to take a more active role in the review and approval process of the School District rates.

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What is the financial impact of the property tax error?

Some news stories reported on the impact to a taxpayer based on a home valued at \$5,000,000 instead of on a \$500,000 home, which caused even greater confusion to area residents.

The Constituent Taxpayer, whose email was referenced in Supervisor Miller’s memorandum, has a parcel with a limited value of \$457,805 that calculates to a taxable net assessed value of \$45,781. The 2019 Override for Capital Outlay portion of this parcel was taxed at \$14.47 using the lower \$0.0316 rate. Using the correct \$0.3161 rate the taxes should have been billed at \$144.71. The difference of \$130.24 (not \$1,500) will be made up in 2020.

Below are some statistics for the Catalina Foothills School District No. 16 Property Tax Bill for 2019:

There are 16,466 parcels within the District. Of the 16,466 parcels, 10,662 are primary residence homes (those that received state aid to education). Of the 10,662 homes, 186 of those homes are between \$1 million and \$3 million in limited value.

Below is the analysis for a Catalina Foothills School District #16 secondary tax rate for a median limited value residential home for 2019:

MEDIAN LIMITED VALUE RESIDENTIAL HOME CF HILLS SD #16	361,248.50
TAXABLE NAV OF MEDIAN HOME	36,125

IMPACT ON CF HILLS SD #16 TAXES AT ADJUSTED TAX RATE FOR MEDIAN RESIDENTIAL HOME (\$361K)

	<u>RATE</u>	<u>TAXES DUE</u>	<u>ADJUSTED RATE</u>	<u>TAXES DUE</u>
PRIMARY				
<i>Maintenance & Operation</i>	3.6868	1,331.85	3.6868	1,331.85
SECONDARY				
<i>Class B Bond Interest and Redemption</i>	0.6752	243.91	0.6752	243.91
<i>Override Maintenance & Operation</i>	0.6007	217.00	0.6007	217.00
<i>Override Election K-3 (corrected to Override Capital Outlay)</i>	0.0316	11.42	0.3161	114.19
TOTAL TAXES DUE FOR CF HILLS SD #16		1,804.18		1,906.95
			INCREASE IN TAXES	102.77

What is the proposed solution?

Pima County’s Finance & Risk Management staff have worked closely with the School Superintendent’s Office, the County Attorney’s Office, and Catalina Foothills School District, to review various possible solutions that included:

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- A. Provide revised tax statements for the current Fiscal Year;
- B. Have Pima County absorb the \$1.8 million not billed to Catalina Foothills Taxpayers;
- C. Transfer to next Fiscal Year's property tax notice the amount not billed for the current Fiscal Year; and
- D. Transfer the \$1.8 million not billed to Catalina Foothills School District taxpayers over multiple future years' property tax notices.

Option A was rejected following a review by the Pima County Attorney's Office, which noted that, *"the tax bills are based on the rates adopted with the tax-levy adoption on the third Monday in August. Therefore, sending new tax bills would require the Board to change the rate. But there is no statutory authority for the Board to change the rates after the deadline for tax-levy adoption has passed and tax bills have been sent. Although there are statutes allowing for the correction of property tax errors, including imposition of an incorrect rate, that process is controlled by the Treasurer or Assessor. More importantly, under that process, a taxpayer cannot be required to pay additional tax for the current tax year if correcting the error would result in additional tax. Accordingly, the error-correction process would not allow the County to send new bills with higher rates."*

The County Attorney's Office also noted that this is not a, *"situation governed by statutory authority on levying for cash deficits. Instead, the solution to this problem is based on longstanding case law providing that the County has a continuing duty to levy to fix the mistake at the appropriate time. The appropriate time would be in the next budget-and-tax-levy cycle next year."*

There are also difficulties with this option due to the timing of property tax bills. The property tax billing statements for the current 2019 tax year were sent to taxpayers in September. According to Arizona Revised Statute Title 42, Chapter 18, Article 52 (ARS §42-18052), taxpayers have until November 1, 2019 to pay their first half taxes free from late interest or delinquent charges. Pima County's property tax calculation system does not possess the ability to run a tax calculation on a single taxing jurisdiction. Even if a recalculation of taxes was possible, there was no way to get the new tax statements into the hands of taxpayers prior to November 1, 2019.

In addition, a revised property tax billing statement also creates a situation where a taxpayer within the District may be unaware that they now have additional taxes as a result of the property tax rate correction and the recalculation of taxes. If taxpayers neglect to pay, it opens up the potential for taxpayers to unknowingly put their parcels into property tax delinquency by not paying this additional amount prior to the delinquency dates.

Option B was rejected, as it would result in the payment of a voter-approved tax for Catalina Foothills School District by all Pima County property taxpayers.

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Option D was rejected following discussion with the County Attorney's Office. The County Attorney's Office noted that this is not a, *"situation governed by statutory authority on levying for cash deficits. Instead, the solution to this problem is based on longstanding case law providing that the County has a continuing duty to levy to fix the mistake at the appropriate time. The appropriate time would be in the next budget-and-tax-levy cycle next year."*

Therefore, the preferable option, Option C, is the solution proposed.

Recommendation

Staff recommends the \$1.8 million for 2019 Override Capital Outlay be added to the 2020 property tax bill statements sent out in September 2020 for all District taxpayers [Case law Sanders v. Folsom, 104 Ariz. 283, 287-290 (1969)].

To accomplish this, I recommend Pima County do the following:

- Send a notification to all District property taxpayers advising them of the error regarding the under-billing of the Override Capital Outlay levy on their 2019 property tax billing statement.
- Ensure that funds are made available to the District to temporarily cover the levy shortfall of \$1.8 million through a short-term, interest free loan with a 1-year payback.
- Bill the 2019 Override for Capital Outlay and 2020 Override for Capital Outlay on separate lines on the 2020 property tax billing statement.
- Provide an informational insert with the 2020 property tax billing statement explaining the 2019 Override for Capital Outlay line for all taxpayers within the District.
- Provide a Pima County contact for taxpayers to call now and in 2020.

CHH/lab

Attachment

c: The Honorable Dustin Williams, Pima County School Superintendent
Jan Leshner, Chief Deputy County Administrator
Michelle Campagne, Director for Finance and Risk Management



MEMORANDUM

Date: October 23, 2019

To: The Honorable Chairman and Members
Pima County Board of Supervisors

From: C.H. Huckelberry 
County Administrator

Re: **Catalina Foothills Unified School District No. 16 Secondary Property Tax**

Pima County was recently made aware of an error that impacts the Fiscal Year 2019/20 secondary property tax levy for the Catalina Foothills Unified School District No. 16 (District).

Property tax billing statements sent to taxpayers in the District contained a line item for a secondary property tax levy for the District entitled *Override Election K-3* (corrected to *Override Capital Outlay*). The amount was calculated using a secondary property tax rate of \$0.0316 per \$100 of taxable net assessed value.

Staff recently noted this was incorrect. The tax amount should have been calculated using a secondary property tax rate of \$0.3161 per \$100 of taxable net assessed value. This error results in the District receiving \$1,800,000 less in property taxes than was originally budgeted for FY 2019/20.

The Pima County Schools Superintendent's Office and County Finance Staff are working with the District's Superintendent to ensure the District does not experience negative impacts for the unbilled amount during the current tax year. Notifications will be sent to the taxpayers within the District to explain the error. The \$1,800,000 for the 2019 Tax Year will be included on the 2020 property tax billing statements mailed in September 2020.

CHH/lab

c: The Honorable Dustin Williams, Pima County School Superintendent
Jan Leshner, Chief Deputy County Administrator
Michelle Campagne, Director, Finance and Risk Management
Robert W. Johnson, Deputy Director, Finance and Risk Management
Patrick McGee, Budget Manager, Finance and Risk Management