ATRA SUPPORTS HB2011

General Obligation (G.O.) Bond "Net" Levies

Background

General Obligation (G.O.) bonds are backed by the "full faith and credit" of the government issuer's taxing power and therefore require voter approval. G.O. bonds are secured through the pledge of secondary property taxes and typically carry the lowest rates of interest of all debt instruments since they are the most stable form of government debt.

State statute limits the amount that may be levied in secondary property taxes to the amount necessary to make the annual debt service payment, and as expanded by legislation passed in 2013, an amount to fund a reasonable delinquency factor and to correct prior year errors. Additional legislation was passed in 2016 to clarify that the annual levy may also include amounts necessary for projected payments on new debt planned for the ensuing year.

Prior to the 2013 legislation, ATRA found many taxing jurisdictions had accrued cash reserves in their debt service funds well in excess of the amount required to make their annual debt service payments. Much of the cash-stockpiling occurred during the real estate boom years when certain jurisdictions neglected to adjust their tax rates to offset the growth in values, which prompted ATRA to advance legislation to prevent further abuse. However, despite the 2013 legislative clarification, several taxing jurisdictions continue to ignore the law and levy taxes in excess of the amount required by ignoring their cash reserves.

Basis for ATRA's Support

The publicity pamphlet that government submits to voters for approval of G.O. bonds outlines an estimate of the annual levy and tax rate necessary to fund the debt service over the term of the bonds. There is no financial justification to stockpile massive sums of taxpayer dollars in a G.O. debt reserve account that is funded annually by the levy of property taxes.

As amended in the House, HB2011 will put an end to this abuse by requiring the annual secondary property tax levy to be net of all cash in excess of 10% of the amount required to make the principal and interest debt service payment in the current year. To address the cities that have accumulated reserves well in excess of the amount required to make their debt service payments, session law provides a two-year window to allow a gradual decline for those cities to return those monies to taxpayers.

ATRA ASKS FOR LAWMAKERS SUPPORT!

15-YEAR HYPOTHETICAL G.O. BOND DEBT SERVICE EXAMPLE

With 5% Annual Delinquency Allowance

Year Ending June 30	Principal	Interest	Total Debt Svc.	5% delinquency	Cash Balance
2015	$36,815,000	$16,305,800	**$53,120,800**	$55,776,840	$2,656,040
2016	$38,905,000	$14,701,736	**$53,606,736**	$56,287,073	$5,336,377
2017	$41,445,000	$13,444,186	**$54,889,186**	$57,633,645	$8,080,836
2018	$41,915,000	$12,087,260	**$54,002,260**	$56,702,373	$10,780,949
2019	$40,470,000	$10,538,885	**$51,008,885**	$53,559,329	$13,331,393
2020	$43,870,000	$9,104,373	**$52,974,373**	$55,623,092	$15,980,112
2021	$40,395,000	$7,530,198	**$47,925,198**	$50,321,458	$18,376,372
2022	$42,060,000	$5,996,373	**$48,056,373**	$50,459,192	$20,779,191
2023	$30,060,000	$4,293,073	**$34,353,073**	$36,070,727	$22,496,844
2024	$21,235,000	$3,037,567	**$24,272,567**	$25,486,195	$23,710,473
2025	$14,325,000	$2,159,417	**$16,484,417**	$17,308,638	$24,534,693
2026	$14,970,000	$1,518,657	**$16,488,657**	$17,313,090	$25,359,126
2027	$10,735,000	$847,304	**$11,582,304**	$12,161,419	$25,938,241
2028	$6,800,000	$420,954	**$7,220,954**	$7,582,002	$26,299,289
2029	$1,956,000	$117,360	**$2,073,360**	$2,177,028	$26,402,957
	$425,956,000	**$102,103,143**	**$528,059,143**	**$554,462,100**	

Source: Pima County FY 2014/2015 Adopted budget.