



## Informational Memo

### Management Services - Memo No. 21-008

**Date:** July 30, 2020

**To:** Mayor and Council

**Thru:** Marsha Reed, City Manager *MR*  
Dawn Lang, Management Services Director *DL*

**From:** Matt Dunbar, Budget Manager *MD*

**Subject:** 2020 Comparative Cost of Services Report Prepared by the City of Tempe

Attached is a copy of the City of Tempe's 2020 Comparative Cost of Services Report. This annual report analyzes the estimated annual amount paid by the average residential household for eight cities and towns in the Phoenix area, including the City of Chandler. The report is compiled as of July 2020 using property tax rates, sales tax rates, and utility rates (solid waste, and combined water and wastewater) in effect at that point of time. This Cost of Services report is also shared on [www.chandleraz.gov](http://www.chandleraz.gov).

#### **Cost of Services Overview – 2nd**

The report shows that Chandler is still the second lowest total annual cost for services (\$1,798), with Gilbert (\$1,741) being the only municipality lower than Chandler by only \$57. For comparison, the municipality with the highest annual cost of service is Glendale (\$2,737). The analysis uses four factors (solid waste rates, water/wastewater rates, sales tax rates, and property tax rates) and various assumptions to determine the cost of municipal services for the median household in each municipality.

#### **Solid Waste Comparison – 3rd**

This comparison shows that Chandler has the third lowest (previously second) cost for solid waste service for the average household at \$215 per year. This was calculated based on Chandler's current monthly single family residential rate of \$17.95.

#### **Water and Wastewater Comparison – 1st**

The Tempe analysis combines the water and wastewater costs and uses the Tempe median single family residential monthly water consumption of 10,000 gallons (Chandler uses 12,000 gallons when comparing water costs with other cities). For Chandler, this comparison equates to \$302 per year for water, which individually is the lowest cost in the

survey. Chandler's wastewater cost is \$27.32 per month (\$328 per year), which individually is the third lowest cost in the survey. The combined total of \$630 per year once again ranks Chandler the lowest in the combined water/wastewater cost comparison.

### **City Sales Tax Comparison - 2nd**

This is the most complex section of the analysis and it includes several major assumptions about median household income and spending patterns. For simplicity, Tempe used the Phoenix metropolitan area median household income of \$75,536 for every city, rather than trying to determine a unique median income for each city. They also assume that 59% of the median income (\$44,491) is spent on taxable purchases, and that all of the taxable purchases are made in the home city or town. This comparison shows that Chandler has maintained the second lowest amount spent on local sales tax (\$736 per year). An average rate of 1.65% was used for Chandler (dividing \$736 by \$44,491), which incorporates the base rate of 1.5% for most retail purchases, but higher percentages for restaurants and bars (1.8%) and utilities (2.75%).

### **City Property Tax Comparison - 4th**

This analysis uses each municipality's 2020 Limited Property Value (LPV) for the median single family home (Chandler's median single family LPV is \$193,846). The analysis then computes the expected property tax based on each city's Fiscal Year 2020-21 primary and secondary tax rates. Chandler is once again the fourth lowest for this category (\$217), but it should be noted that besides the City of Glendale, the only communities with lower values than Chandler are ones who do not charge a primary property tax. Chandler's \$217.13 annual property tax is calculated as follows:

Primary:       \$193,846 x 10% assessment ratio = \$19,384.60/\$100 x \$0.2581 = \$ 48.48  
Secondary:     \$193,846 x 10% assessment ratio = \$19,384.60/\$100 x \$0.8700 = \$168.65  
Total:           \$193,846 x 10% assessment ratio = \$19,384.60/\$100 x \$1.1281 = \$217.13

While the various assumptions made in the City of Tempe analysis result in different comparisons, we appreciate the fact that they publicly share this report to help us compare our operations with those of other municipalities in the area. It is also rewarding to see that Chandler is reflected very favorably in these annual comparisons of the cost for municipal services for a median residential household.

Should you have any questions regarding this information, please contact me at x2256.

Attachment - City of Tempe 2020 Comparative Cost of Services Report

c:       Joshua H. Wright, Assistant City Manager  
          Debra Stapleton, Assistant City Manager

# MEMORANDUM



TO: Mayor and Council  
FROM: Aaron Peterson, Strategic Management Analyst  
THROUGH: Ken Jones, Deputy City Manager – CFO  
Mark Day, Municipal Budget Director  
DATE: July 10, 2020  
SUBJECT: 2020 Comparative Cost of Services Report

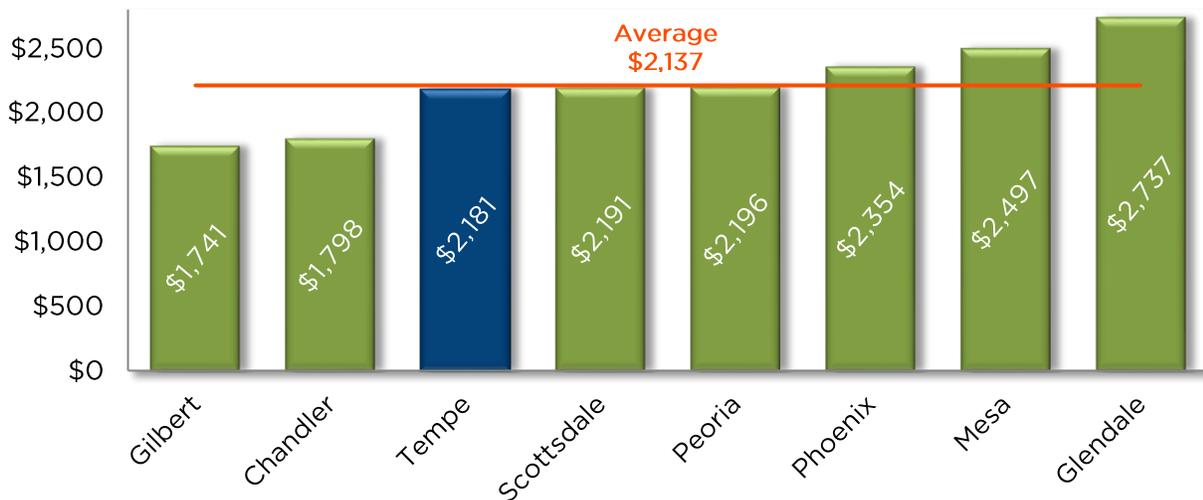
Each year the Municipal Budget Office performs an analysis of the estimated annual amounts paid by the typical residential Tempe household for direct services provided by the City of Tempe as well as the estimated total annual amount paid in City of Tempe property and transaction privilege (sales) taxes. These amounts are then compared to the estimated annual amounts paid by the same typical residential household in seven comparison cities in the Phoenix metropolitan area.

For purposes of this comparison, we utilized the property tax, sales tax and utility service rates as of July 2020. The analysis assumed the same household consumption amounts for all cities for both water and wastewater services. However, for property tax purposes, we utilized the median single-family home value in each respective city in the analysis. The sales tax amounts are based on the Phoenix metropolitan area median household income. As such, this analysis is intended to reflect what the typical residential household would pay for each of the services or pay in taxes in their respective city.

## Overview

*Average annual household cost for property tax, sales tax, water, wastewater and solid waste services*

Estimated Annual Cost



### Solid Waste

The annual amount for single family residential solid waste services is estimated at \$332 for the City of Tempe. The amounts noted above are based on a residential customer with a once per week collection, based on the rates as of July 2020.



### Water and Wastewater

The annual total amount for water and wastewater services for a single-family residential customer in the City of Tempe is estimated at \$666. The annual water charge is based on a typical single family residential monthly water consumption of 10,000 gallons, consistent with the most recent water rate study. It is assumed that this water consumption amount is applicable to the other cities in the comparison. As such, this consumption amount was applied to each respective city's water rates as of July 2020 to derive the annual water costs.

The billable gallons of wastewater are derived from a typical residential three-month winter average water consumption of 10,000 gallons (January - March billing statements), and then multiplied by a rate of return. For example, Tempe's rate of return is 70%. When multiplied by 10,000 gallons, the result is 7,000 billable wastewater gallons per month. It is assumed that the typical water consumption is applicable to the other cities.

As such, this consumption was applied to each respective city's rate of return as of July 2020 to derive the annual wastewater costs.

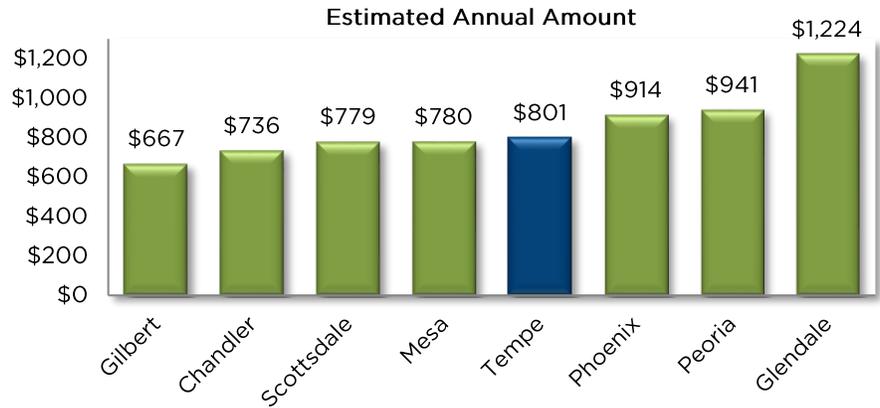


### City Sales Tax

The annual amount that the typical Tempe residential household will pay in City of Tempe sales tax is estimated to be \$801 for 2020.

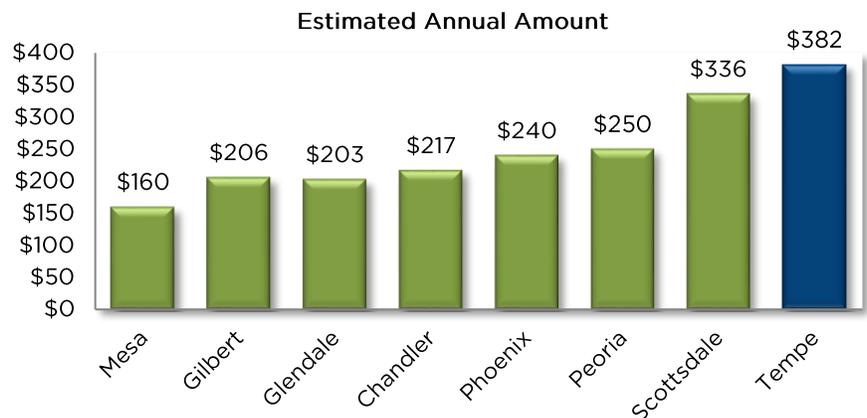
For this analysis, we utilized the Phoenix metropolitan area median household income of \$75,536 per the U.S. Census Bureau, 2018 American Community Survey. As median incomes can vary between the cities, the Phoenix metropolitan area median household income was utilized so that a direct comparison could be made between cities. The portion of this income that was spent on taxable purchases is estimated at 59% (\$44,491), as noted in the latest Consumer Expenditure Survey published by the U.S. Bureau of Labor Statistics (April 2020). We assumed that the portion of the median income spent on taxable purchases was spent within the household's city of residence and applied to each city's applicable sales tax rate.

Please note that many of the comparison cities in the analysis utilize different tax rates for various taxable activities. For example, the City of Glendale has an overall sales tax rate of 2.9%; however, sales at restaurants and bars are taxed at 3.9%. These variances were considered when calculating the annual amount of sales taxes paid.



**City Property Taxes**

The annual estimated City of Tempe property tax amount is \$382. The property tax amounts shown below are based on each city’s FY 2020-21 primary and secondary rates and each city’s 2020 Limited Property Value (LPV) for the median single-family home. Starting in FY 2015-16, Proposition 117 requires the use of the LPV in levying both primary and secondary property taxes.



The 2020 median single family LPV for each city, per the Maricopa County Assessor, is as follows:

Phoenix	\$112,702	Peoria	\$173,858
Glendale	\$112,690	Chandler	\$193,846
Mesa	\$143,050	Gilbert	\$207,829
Tempe	\$159,645	Scottsdale	\$325,899

It should be noted that the City of Mesa and the Town of Gilbert only levy a Secondary Property Tax.