

**To the Mayor and Members of the City Council****August 10, 2021**

Page 1 of 2

SUBJECT: TRUTH IN TAXATION: SUBMISSION OF 2021 NO-NEW-REVENUE AND VOTER- APPROVAL TAX RATES

This informal report has been prepared to inform the City Council of the 2021 no-new-revenue tax rate (NNRTR) and the voter-approval tax rate (VATR) for use in the fiscal year 2022 budget and financial planning discussions. This is a requirement under the truth-in-taxation provision, found in the Texas Constitution and the Texas Tax Code.

The NNRTR reflects the rate which would generate the same revenue as the prior year based solely on property that was taxable for both years. Pursuant to Texas Property Tax Code Section 26.04(c), this rate is calculated as shown:

$$\frac{(\text{Last Year's Levy} - \text{Lost Property Levy})}{(\text{Current Total Value} - \text{New Property Value})}$$

The VATR limits growth of the maintenance and operations rate to no more than 3.5% above the preceding tax year's budget amount as follows:

$$\text{VATR} = (\text{NNRTR M\&O rate} \times 1.035) + (\text{current debt rate} + \text{unused increment rate})$$

Property tax rates are comprised of two separate rates, Maintenance & Operation (M&O) and Interest & Sinking (I&S). As its name implies, the M&O rate provides operating revenue for the General Fund while the I&S rate provides resources to repay debt obligations through the General Debt Service Fund.

The 2021 no-new-revenue tax rate is \$0.725928 / \$100 assessed valuation
The 2021 voter-approval tax rate is \$0.762800 / \$100 assessed valuation
The 2021 voter-approval rate adjusted for the unused increment is \$0.822434 / \$100 assessed valuation
The 2020 adopted tax rate is currently \$0.747500 / \$100 assessed valuation

If the City Council chooses to adopt a tax rate that exceeds the no-new-revenue rate of \$0.725928 per \$100 assessed valuation, it will hold one public hearing on the tax revenue increase.

Staff will recommend the City Council adopt a tax rate of \$0.732500 per \$100 of assessed valuation in connection with the fiscal year 2022 budget. This proposed rate is \$0.015 lower than the adopted tax rate of \$0.74750 per \$100 of assessed valuation for the fiscal year 2021 budget. It exceeds the no-new-revenue tax rate. The City will a public tax rate hearing on September 14, 2021.

If the City Council adopts a total tax rate that exceeds the voter approval tax rate, it must be adopted by August 24th (71 days before the next uniform election date) and triggers an automatic election. No petition is required. If the voter approval election fails, the City would be forced to adopt the

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Page 2 of 2

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voter approval tax rate. The tax rate of \$0.732500 per \$100 of assessed valuation is lower than the voter-approval tax rate and thus the August 24th deadline is not applicable.

Pursuant to Section 26.06(c) of the Texas Tax Code Notice of the proposed tax rate will be published in the newspaper and posted on the City's homepage by September 7, 2021 and additional information regarding the no-new-revenue and the voter-approval tax rates will be provided on request. The tax rate (M&O and I&S components combined) is scheduled to be adopted on September 21, 2021.

The Property Tax Reform and Relief Act of 2019, or SB2, was approved by the Texas Senate during the 86th Legislature and subsequently signed into law. Many of changes to the process were implemented last year, including changes to the rate calculations, reduction of public hearings required for tax increase to one, transparency measures, and posting requirements. Further changes were incorporated this year as the changes are now applicable statewide, regardless of population size. It is anticipated that additional discussions will take place throughout the coming year in order to ensure ongoing compliance.

If you have any questions, please contact Mark McAvoy, Director, Planning and Data Analytics Department, at (817) 392-6222.

David Cooke
City Manager