

To the Mayor and Members of the City Council**August 9, 2022**

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**SUBJECT: TRUTH IN TAXATION: SUBMISSION OF 2022 NO-NEW-REVENUE AND VOTER-APPROVAL TAX RATES**

This informal report has been prepared to inform the City Council of the 2022 no-new-revenue tax rate (NNRTR) and the voter-approval tax rate (VATR) for use in the fiscal year 2023 budget and financial planning discussions. This is a requirement under the truth-in-taxation concept, 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 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 is the maximum tax rate that the City can adopt without an election. The VATR reflects the sum of: (a) a maintenance and operations (M&O) rate of 3.5% above the NNRTR plus, (b) the City's debt tax rate plus, (c) any unused increment. This concept is expressed mathematically as follows:

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

(The concept of unused increment became effective starting with the 2020 calendar year. The available unused increment is the total difference, if any, between the VATR without any unused increment and the adopted rate for each of the three preceding years.)

Property tax rates are comprised of two separate rates, Maintenance & Operation (M&O) and Interest & Sinking (I&S). 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 adopted tax rate is currently \$0.732500 / \$100 assessed valuation
- The 2022 no-new-revenue tax rate is \$0.666876 / \$100 assessed valuation
- The 2022 voter-approval tax rate without any unused increment is \$0.709912 / \$100 assessed valuation
- The 2022 voter-approval rate with all available unused increment is \$0.799846 / \$100 assessed valuation
- The recommended 2022 tax rate is \$0.712500 / \$100 assessed valuation

The City Manager is recommending the City Council adopt a tax rate of \$0.712500 in connection with the fiscal year 2023 budget. This proposed rate is \$0.0200 lower than the current tax rate of \$0.732500. While the recommended rate exceeds the VATR without any unused increment, it is \$0.087346 less than the VATR adjusted for all available unused increment. The City Manager is not recommending that the City use the full amount available.

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Because the City Manager's recommended tax rate exceeds the NNRTR of \$0.666876, the City Council is required to hold one public hearing on the tax revenue increase. That public hearing will be held on September 27, 2022.

If the City Council were to adopt a tax rate that exceeds the VATR with all available unused increment of \$0.799846, it would need to be adopted by August 22nd (78 days before the next uniform election date) and would trigger an automatic election. No petition is required. If the election were to fail, the City tax rate would default to the VATR. The August 22nd deadline does not apply to the recommended rate.

The recommended tax rate will be published in accordance with legal requirements, and additional information regarding the NNRTR and the VATR will be provided on request. The tax rate is scheduled to be adopted on September 27, 2022, following a public hearing on that same date.

If you have any questions, please contact Richard Zavala, Interim Director of the Planning and Data Analytics Department, at (817) 392-6222.

David Cooke
City Manager