



STAFF REPORT

DATE: January 21, 2020

TO: Kent Cagle, City Manager

FROM: Traci Briggs, Interim City Attorney

SUBJECT: Calling for the May 2, 2020 Special Election to Consider Amending 0.5% of the Sales Tax Rate from Property Tax Relief to General Government Purposes

BACKGROUND AND FINDINGS:

The Texas Election Code, Chapter 3, provides for the ordering of an election not later than the 78th day before the election date.

The Texas Legislature passed Senate Bill 2, also known as the Texas Property Tax Reform and Transparency Act of 2019, during the 2019 legislative session. The primary means that Senate Bill 2 will affect the City is by reducing the tax rate that may be adopted without voter approval (rollback rate), and the requirement to hold a mandatory election if the rollback rate is exceeded. For FY 2020, the City was able to raise up to 8.0 percent more maintenance and operations tax revenue as the year before after taking into account increases in appraisal valuations. This 8.0 percent ceiling will be reduced to 3.5 percent beginning in FY 2021 because of Senate Bill 2.

If the reduction in the tax rate ceiling to 3.5 percent had been in effect in FY 2020, the estimated impact would have been a loss of \$1.1 million in property tax revenue. Senate Bill 2 was not designed to reduce year-to-year property tax revenue. The intent of the bill is to reduce the ceiling for year-to-year increases. The estimated loss in revenue is due to a portion of the City's sales tax being dedicated to property tax relief.

Since 1990, the City's local sales tax has been 1.5%, comprised of 1.0% for General Governmental Purposes and 0.5% for Property Tax Relief, referred to as an additional sales and use tax in the Tax Code. The Property Tax Relief portion of the City's local sales tax reduces the rollback rate ceiling by approximately 13 cents. In FY 2020, this 13 cent reduction would have reduced the rollback rate below the City's current tax rate, resulting in an estimated revenue loss of \$1.1 million.

Any further loss of revenue will have a significant impact on operations. The City's property tax revenue is already challenged by the disabled veterans' exemption. In FY 2020, property tax revenue loss due to the exemption was \$6.3 million. Adjusting for the State's estimated reimbursement of \$3.2 million leaves a net loss of \$3.1 million or an equivalent of 5 cents on the tax rate. The estimated additional revenue loss from Senate Bill 2 will make it increasingly difficult to maintain the current level of services provided to Killeen's citizens.

The City has the option of holding an election for a combined proposition to change the 0.5% sales tax rate from Property Tax Relief to General Government Purposes. Doing so will result in:

- No change to the current sales tax rate;
- No change to the current property tax rate; and
- No new revenue.

Changing the sales tax rate from Property Tax Relief to General Government Purposes will prevent potential revenue loss estimated to have been \$1.1 million if Senate Bill 2 was in effect during FY 2020.

The attached ordinance has been prepared calling the election and giving notice of an election for the purpose of citizen's consideration of amending 0.5% local sales tax option of the sales tax rate from Property Tax Relief to General Government Purposes. The proposed ballot language meets the statutory requirements of the Tax Code.

THE ALTERNATIVES CONSIDERED:

City staff reviewed alternatives with City Council on December 10, 2019. There are three local sales tax options that will not negatively impact current revenues. Those options include 1) General Government Purposes; 2) Crime Control and Prevention District; and 3) Fire Control, Prevention, and EMS District. The alternatives presented to City Council were:

- 1) Do nothing and absorb the estimated revenue loss into operations;
- 2) Change 0.5% of the sales tax rate to a Crime Control and Prevention District and/or a Fire Control, Prevention, and EMS District; and
- 3) Change 0.5% of the sales tax rate to General Government Purposes.

Which alternative is recommended? Why?

Following City Council's motion of direction on December 10, 2019, staff recommends holding a May 2, 2020 special election for the purpose of citizen's consideration of amending 0.5% of the sales tax rate from Property Tax Relief to General Government Purposes.

CONFORMITY TO CITY POLICY:

This ordinance conforms to Article IX of the City Charter authorizing the calling of an election to be held on a uniform election date provided for in the Texas Election Code.

FINANCIAL IMPACT:

What is the amount of the expenditure in the current fiscal year? For future years?

The estimated cost to conduct the general election and this special election is \$75,000. Funds are budgeted in account #610-1010-416.50-45, Election Expense. If KISD has an election, it will be held jointly with the city and KISD will pay one-half of the total costs of elections equipment and personnel.

Is this a one-time or recurring expenditure?

Holding an election is an annual expenditure.

Is this expenditure budgeted?

Yes

If not, where will the money come from?

N/A

Is there a sufficient amount in the budgeted line-item for this expenditure?

Yes

RECOMMENDATION:

Staff recommends City Council approve the attached ordinance calling for a May 2, 2020 special election to consider Proposition A amending 0.5% of the sales tax rate from Property Tax Relief to General Government Purposes.

DEPARTMENTAL CLEARANCES:

Finance
City Attorney

ATTACHED SUPPORTING DOCUMENTS:

Ordinance