



## STAFF REPORT

**DATE:** August 3, 2021

**TO:** Kent Cagle, City Manager

**FROM:** Jonathan Locke, Executive Director of Finance

**SUBJECT:** Setting the preliminary tax rate and public hearing date for the FY 2022 Annual Budget

### **BACKGROUND AND FINDINGS:**

Truth-in-taxation laws require the governing body to publish notice and hold a public hearing if a proposed tax rate exceeds the lower of the no-new-revenue tax rate or the voter-approval rate. The following tax rates per \$100 valuation are relevant to the proposed FY 2022 Budget:

No-New-Revenue Rate	0.6713
Notice and Hearing Rate	>0.6713
Proposed Budget Rate	0.7056
Current Rate	0.7330
Voter-Approval Rate	0.8357

The City Council must set a preliminary tax rate for the proposed FY 2022 Budget. The preliminary tax rate is the maximum tax rate that may be adopted for the FY 2022 Budget. The final tax rate may be equal to or lower than the preliminary tax rate. The final tax rate may not be higher than the preliminary tax rate.

If the preliminary tax rate is equal to or less than 0.6713, the City Council must take a record vote and a public hearing on the preliminary tax rate is not required.

If the preliminary tax rate exceeds 0.6713, the City Council must take a record vote and schedule a public hearing on the preliminary tax rate. The City Manager's proposed FY 2022 Budget is predicated on the proposed budget rate of 0.7056. Setting the preliminary tax rate at the 0.7056 requires a public hearing since it is higher than 0.6713.

If City Council decides to issue bonds for street reconstruction that will be repaid with property taxes, the preliminary tax rate will need to be set higher than the proposed budget rate of 0.7056 in order to fund the programs and services in the proposed FY 2022 Budget. For example, a \$24 million bond issue repaid with property taxes will require the preliminary tax rate to be set at 0.7169.

The Notice of Public Hearing must run at least five (5) days prior to the public hearing on the tax rate. The public hearing is scheduled for September 14, 2021, and the tax rate is scheduled to be adopted the same day. In accordance with State law, the governing body may vote on the

proposed tax rate at the public hearing and requires that the tax rate be adopted no later than seven (7) days after the public hearing.

### **THE ALTERNATIVES CONSIDERED:**

Setting the preliminary tax rate at:

1. No-New-Revenue Rate - 0.6713
2. Proposed Budget Rate - 0.7056
3. Proposed Rate to support \$24 million bond issue - 0.7169
4. Current Rate - 0.7330
5. Voter-Approval Rate - 0.8357

### **Which alternative is recommended? Why?**

City Council set the preliminary tax rate equal to the proposed budget rate of 0.7056. If City Council is considering a bond issue that will be repaid with property taxes, the preliminary tax rate should be set at the amount necessary to cover repayment. The City Manager's proposed FY 2022 Budget is predicated on the proposed budget rate of 0.7056. The chart below illustrates the budget impact of setting the preliminary tax rate at the different alternatives:

	Tax Rate	Property Tax Revenue	Difference from Budgeted Rate
No-New-Revenue Rate	\$0.6713	\$50,902,612	(\$2,462,396)
Proposed Budget Rate	\$0.7056	\$53,365,008	\$ -
Rate to include \$24M Bond	\$0.7169	\$54,179,609	\$814,601
Current Rate	\$0.7330	\$55,336,619	\$1,971,611
Voter-Approval Rate	\$0.8357	\$62,717,047	\$9,352,039

### **CONFORMITY TO CITY POLICY:**

This recommendation meets Truth-in-Taxation laws as set forth in the Texas Property Tax Code.

### **FINANCIAL IMPACT:**

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

Not applicable.

#### **Is this a one-time or recurring expenditure?**

Not applicable.

#### **Is this expenditure budgeted?**

Not applicable.

#### **If not, where will the money come from?**

Not applicable.

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

Not applicable.

**RECOMMENDATION:**

City Council set the preliminary tax rate at \$0.7056.

**DEPARTMENTAL CLEARANCES:**

Finance  
City Attorney

**ATTACHED SUPPORTING DOCUMENTS:**

N/A