

**To the Mayor and Members of the City Council****June 6, 2023**

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SUBJECT: BUDGET AND TAX NOTICE REQUIREMENTS

This informal report will provide an overview of the statutory requirements the City must comply with when issuing public notices, holding public hearings, considering budgets, and setting rates during the Fiscal Year 2024 budget and associated ad valorem tax rate adoption process.

Statutory Requirements

The statutory requirements for the budget and tax rate process are found in:

State Law

- Tax Code Chapter 26 – Assessment – specific requirements for truth-in-taxation (TNT) governs adoption of property tax rate
 - one public hearing requirement
 - notice at least five days before hearing
 - must vote within seven days of public hearing or re-notice and hold another hearing
 - approval by 60% of Councilmembers (7 members) required via record vote
- Local Government Code Chapter 102 – Municipal Budget
 - one public hearing requirement
 - notice between thirty and ten days prior to hearing

City Charter

- Chapter X. The Budget and Financial Procedure Relating Thereto (since the 1924 adoption)
 - City Manager must propose recommended budget on or before August 15th
 - Budget public hearing – one public notice and public hearing requirement
 - Cannot vote on budget at the same meeting as budget hearing
 - Appropriations ordinance – two publication requirements following adoption

The notice for the tax hearing is at least 5 days but the notice for the budget hearing is at least 10 days prior. Notices must be published in the official newspaper prior to the public hearings, and posted on the City's web page and cable channel continuously until votes are held. Where a notice is required under state law, the law generally dictates exactly what information the notice must contain and often requires the City follow form notices published by the State Comptroller's office.

The official budget hearing, which meets all state and local legal requirements, is scheduled for September 12. The official tax revenue/rate hearing is scheduled for September 19. It is anticipated that the City Council will act on the proposed budget and tax revenue/rate on September 19.

Process

Once the City Manager's recommended budget has been drafted, the next step in the TNT process is to calculate the no-new-revenue and voter-approval tax rates. The no-new-revenue rate looks at properties that are taxable in both the current year and the upcoming year and determines the tax rate that is needed to generate the same amount of revenue in both years, based only on those properties. The voter-approval tax rate is the rate that would produce maintenance and operations property tax revenue normally 3.5%

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above the current year from properties taxable in both years. Staff provides the City Council with an Informal Report outlining the no-new-revenue and voter-approval tax rates each year.

The tax rate consists of two legally defined components which must be identified and approved separately. The components are maintenance and operations (M&O) and interest and sinking (I&S). The City has elected to dedicate a portion of the M&O component to fund infrastructure and capital maintenance, called pay-as-you-go (PAYGo).

If the City's current tax rate exceeds the no-new-revenue tax rate, but not the voter-approval rate adjusted for unused increment, the following process would be required:

- Publication of a "Notice of Public Hearings on Tax Revenue Increase," which would occur no later than August 29, 2023; and
- The City Council will hold an official public hearing on the tax rate/revenue, which is scheduled to take place on September 19, 2023;
- The City Council will vote on the tax rate/revenues on September 19, 2023 and must be approved by at least 60% of the Council members; and
- The City Council will ratify the increased tax revenues through a resolution on September 19, 2023.

If the City's proposed tax rate exceeds the voter-approval rate, adjusted for the unused increment, the process is expedited because of the requirement for an election. In that instance, the budget and tax rate must be approved by August 21, 2023.

In accordance with the City Charter, the caption and penalty provision of the tax rate ordinance would need to be published twice following adoption.

More information may be found on the comptroller's website: <https://comptroller.texas.gov/taxes/property-tax/truth-in-taxation/>

If you have any questions, please contact Mark McDaniel, Interim Chief Transformation Officer, at (817) 392-6222.

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