

**To the Mayor and Members of the City Council****August 13, 2019**

Page 1 of 2

**SUBJECT: SUBMISSION OF 2019 EFFECTIVE AND ROLLBACK TAX RATES**

This informal report has been prepared to inform the City Council of the 2019 Effective and Rollback Tax Rates for use in the budget discussions regarding the financial plan for fiscal year 2020. The Effective Tax Rate reflects the rate which would generate the same revenue as the prior year based solely on property that was taxable for both years. The Rollback Tax Rate serves as a cap on property tax rates, thus limiting the taxing units' ability to make material increases over the prior year's rate.

Pursuant to Texas Property Tax Code Section 26.04(c), the Effective Tax Rate =

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

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 is provides resources to repay debt obligations through the Debt Service Fund.

The 2019 Effective Tax Rate is \$0.726558 / \$100 assessed valuation

The 2019 Rollback Tax Rate is \$0.789191 / \$100 assessed valuation

The 2018 Adopted Tax Rate is currently \$0.7850 / \$100 assessed valuation

If the City Council chooses to adopt a tax rate that exceeds the effective rate of \$0.726558 per \$100 assessed valuation, it would need to adopt a resolution to consider a tax revenue increase and hold two public hearings on the tax revenue increase.

Staff will be recommending adoption of a tax rate of \$0.74750 per \$100 of assessed valuation in connection with the fiscal year 2020 budget. This proposed rate is lower than the current actual adopted tax rate of \$0.7850 per \$100 of assessed valuation, and, while this is a lower tax rate, it exceeds the effective tax rate. Therefore, a resolution to consider a tax revenue increase will be presented for the City Council's consideration at its August 13 meeting. If the resolution is approved, the state-law-mandated notices will be published and the public hearings scheduled.

If the City Council adopts a total tax rate that exceeds the rollback rate, taxpayers may petition for a rollback election by gathering signatures from at least seven percent (7%) of the registered voters shown on the most recent official voter list. If the rollback election succeeds, the City would be forced to adopt the rollback rate.

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Page 2 of 2

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This year, the City will not be subject to a rollback election unless it adopts a tax rate higher than \$0.789191 per \$100 of assessed valuation.

Pursuant to Section 140.010 of the Local Government Code notice of the proposed tax rate will be published in the newspaper on August 17, 2019, and additional information regarding the rollback and effective tax rates will be provided on request. The tax rate (M&O and I&S components combined) is scheduled to be adopted on September 17, 2019.

Of note, the Property Tax Reform and Relief Act of 2019, or SB2, was approved by the Texas Senate during the 86<sup>th</sup> Legislature and subsequently signed into law. While there is no immediate impact to the process of adopting property tax rates for cities this fiscal year, the bill includes significant changes to the current process along with new requirements, which will be implemented going forward in the budget process for next year.

If you have any questions, please contact Terry Hanson, Assistant Director, Performance and Budget Department, at (817) 392-7934.

**David Cooke**  
**City Manager**