



INFORMATION MEMORANDUM

TO: Mayor and City Council

FROM: Mayve Strong
Interim Finance Director

DATE: September 20, 2016

SUBJECT: Information Memo – 2016 Tax Rates & Discussions

Tax Rate Calculations

The following tax rates were calculated through the truth-in-taxation process:

- **Effective Tax Rate:** The effective tax rate calculation enables the public to evaluate the relationship between taxes for the prior year and for the current year, based on a tax rate that would produce the same amount of taxes if applied to the same properties taxed in both years. In calculating this rate, the formula assumes that if values increase, the tax rate should decrease to create the same amount of revenue as it did the year before or if values decrease, the tax rate must increase to produce the same amount of revenue. Calculating the effective tax rate requires the prior year's taxes and the current year's taxable value for property taxed in both years. Dividing the taxes by the value (and multiplying by 100 to convert to a rate per \$100 of value) produces the effective tax rate. The calculated effective tax rate for the City is \$0.590846.
- **Effective Maintenance and Operations (M&O) Rate:** Taxing units calculate an effective M&O rate by taking the adjusted prior year's total taxable value used to calculate the effective tax rate and multiplying it by the prior year's M&O rate, and then dividing the product by \$100 to get the adjusted prior year's M&O taxes. The prior year's M&O taxes are then divided by the adjusted current year's taxable value to get the current year's effective M&O rate. The calculated effective maintenance and operations rate for the City is \$0.502822.
- **Rollback Tax Rate:** The rollback tax rate calculation splits the tax rate into two separate components - a maintenance and operations (M&O) rate and a debt service rate. M&O includes such things as salaries, utilities and day-to-day operations. Debt service covers the interest and principal on bonds and other debt secured by property tax revenues. The rollback tax rate is the sum of M&O and debt service rates. In most cases, the rollback tax rate will exceed the effective tax rate, but occasionally decreases in a taxing

unit's debt service will cause the effective tax rate to be higher than the rollback tax rate. In calculating this rate, the M&O portion of the rollback tax rate is the tax rate that would be needed to raise the same amount of taxes that the taxing unit levied in the prior year plus eight percent. The debt service rate portion is the tax rate necessary to pay the taxing unit's debt payments in the coming year. This part of the calculation does not depend on the last year's debt taxes at all; it considers the amount the taxing unit will need for the current year. The debt service portion of the overall tax rate may rise as high as necessary without triggering the threat of a rollback election. The calculated rollback tax rate for the City is \$0.630047.

- *Rollback Maintenance and Operations (M&O) Rate:* The rollback M&O rate is the effective M&O rate multiplied by 1.08. The calculated rollback maintenance and operations rate for the City is \$0.543047.
- *Debt Service Rate:* The debt service portion of the rollback tax rate is the rate necessary to pay the taxing unit's debt payments in the coming year. This part of the calculation concerns what the taxing unit will actually need to support debt service for the current year. The calculated debt rate under this section is \$0.087000.

Budget Discussions

On July 29, 2016, City Administration submitted the Proposed 2016-17 Fiscal Year Operating & Capital Budget to City Council, which was developed with no change to the current tax rate. However, discussions were held earlier in the year to consider raising the current tax rate of \$0.602267 (per \$100 valuation) by 1/3 of one-cent to support debt related to Justice Center improvements bonds issued in May 2016 totaling \$2,600,000. Later, during budget work sessions held in August 2016, City Administration was also asked to consider budget modifications that would provide for a one-cent tax reduction.

The impact of the three different budget scenarios on the calculated effective and rollback rates and the distribution of the tax rate is as follows:

The proposed budget presented to City Council recommends no change to the current tax rate of \$0.602267. Maintaining the current tax rate will result in an increase to the calculated effective rate (*for maintenance and operations and debt service*) of 1.93%, will raise more taxes for maintenance and operations than last year's effective maintenance and operations tax rate by 2.47%, and will raise more taxes for maintenance and operations on a \$100,000 home by approximately \$1.37. Under this scenario, a \$0.602267 tax rate will be distributed as follows: \$0.515267 for general fund maintenance and operations and \$0.087 for debt service distribution, per \$100 assessed value.

Adopting a proposed rate of \$0.6056 to support debt related to Justice Center improvement bonds issued in May 2016 represents a \$.003333 (1/3 of one-cent) tax rate change from the previous tax year. It was originally determined that if this rate were approved, the entire increase would be used to support debt service and calculations were based on this assumption. If this rate is adopted and the entire increase is used to support debt service, the tax rate will exceed the effective rate calculated under Tax Code – Chapter 26 by 2.50% and will raise more taxes for maintenance and operations than last year's tax rate. The maintenance and operations portion of the tax rate will effectively be raised by 2.20% and will raise taxes for maintenance and operations on a \$100,000 home by approximately \$0.00. Under this scenario, the \$0.6056 tax rate will be distributed as follows: \$0.513897 per \$100 of assessed value for general fund

maintenance and operations distribution and \$0.091703 per \$100 of assessed value for debt service distribution. [Note: If a rate of \$0.6056 is adopted and funds are used for maintenance and operations instead of debt service, the tax rate will raise more taxes for maintenance and operations than last year's tax rate by 3.14% and will raise taxes for maintenance and operations on a \$100,000 home by approximately \$4.70. Distribution of the \$0.6056 tax rate under this scenario, is: \$0.5186 per \$100 of assessed value for general fund maintenance and operations distribution and \$0.087 per \$100 of assessed value for debt service distribution.]

Lastly, adopting a rate of \$0.592267 will result in a one-cent reduction in the tax rate. Adopting this rate will result in an increase to the calculated effective rate of 0.24%, will raise more taxes for maintenance and operations than last year's effective maintenance and operations tax rate by 0.49%, and will lower taxes for maintenance and operations on a \$100,000 home by approximately \$8.63. Under this scenario, a \$0.592267 tax rate will be distributed as follows: \$0.505267 for general fund maintenance and operations and \$0.087 for debt service distribution, per \$100 assessed value.