



AGENDA MEMO

9/3/2013 Agenda

TO: Honorable Mayor and City Council

FROM: Kent R. Austin, Director of Finance

SUBJECT: Second public hearing on proposed tax increase and 2013-14 budget

BACKGROUND:

Texas statutes require that cities provide notice and hold public hearings before adopting an annual budget and property tax rate. The September 3 Council meeting includes the second round of hearings on the budget and tax rate.

The proposed tax rate of 27.432 cents is slightly different than the original 27.845 cents rate advertised in the official notices. At their August 22, 2013 meeting, the Finance Advisory Committee recommended the lower rate and resulting lower tax revenues, to reduce the impact on residents also facing water and sewer rate increases.

Proposed FY2014 budget

The Texas Local Government Code (Section 102) requires that a budget hearing be held no sooner than 15 days after the proposed budget is filed with the municipal clerk. Using August 9 as the filing date, a first hearing on August 27 meets this requirement.

The proposed FY2014 budget of \$46,132,713 is 4.19% larger than the adopted FY2013 budget of \$44,275,598. The budget reduces the current 27.845 cents property tax rate to 27.432 cents and proposes rate increases for water and sewer service.

Proposed property tax rate

The property tax is the General Fund's primary source of revenue. In the current FY2013 budget, \$15,558,384 of the \$27,286,305 General Fund revenue is derived from current year property taxes.

The 2013 certified tax roll rose 6.04% in market value and 5.59% in taxable value compared to last year. This is the first year since 2009 that property values have risen strongly in the city.

The distinction between a tax revenue increase and tax rate increase can be confusing--even though the City is decreasing its tax rate (from 27.845 to 27.432 cents), tax revenues will rise by \$626,256 because of growth in the tax base.

The market value of the average single-family home in University Park rose 5.61%, so that the average single family homeowner would pay \$98 more in City property taxes (\$2,532 in 2013 vs. \$2,434 in 2012), as the table below demonstrates:

Comparison of tax base, tax rate, and tax levy		
	2012 (FY2013)	2013 (FY2014)
Citywide certified tax base	\$5,587,424,812	\$5,899,777,154
City tax rate per \$100	\$0.27845	\$0.27432
Total tax levy	\$15,558,184	\$16,184,440
Avg single-family home (market)	\$1,092,539	\$1,153,806
Avg single family home (taxable)	\$874,032	\$923,044
Avg single-family home tax bill	\$2,434	\$2,532

Truth in Taxation impact

The Texas Tax Code (Section 26, Truth in Taxation) requires the calculation and publication of the effective tax rate (ETR), a number intended to “enable the public to evaluate the relationship between taxes for the preceding 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” (2012 Truth-in-Taxation Guide, Texas State Comptroller).

The Dallas County Tax Assessor-Collector performs the effective tax rate calculation. The ETR formula is:

Prior year taxes minus taxes on property lost this year: \$15,371,433
divided by
Current value of property taxed last year: \$5,799,033,759
times \$100
Equals Effective Tax Rate: \$0.265068

The ETR is significant because it drives the notice and hearing requirements a city must meet per the Texas Truth-in-Taxation law. Cities proposing an effective tax increase greater than the prior year must hold two separate public hearings about the tax rate.

For FY2014, the proposed \$0.27432 rate is higher than the ETR of \$0.265068, so notices and hearings are required. The hearings scheduled for August 27 and September 3 satisfy this requirement. Final approval of a tax rate is scheduled for the September 10 Council meeting.

RECOMMENDATION:

Hold the public hearing and invite comments on the proposed budget and tax rate.