



AGENDA MEMO

8/10/2022 Agenda

TO: Honorable Mayor and City Council

FROM: Thomas W. Tvardzik, Finance Director

SUBJECT: Approve a resolution adopting a maximum proposed property tax rate for Tax Year 2022 (FY2023); and set the date for both the tax rate hearing and the adoption of the final property tax rate.

BACKGROUND:

State law requires that all taxing units comply with “truth-in-taxation”, a concept embodied in both the Texas Constitution and the Tax Code. Truth-in-taxation requires the calculation and publication of the “No-New-Revenue Tax Rate” (previously known as the “Effective Tax Rate”), and the “Voter-Approval Tax Rate” (previously known as the “Rollback Tax Rate”).

The No-New-Revenue Tax Rate (NNR) is the rate that will provide the City with the same amount of revenue it received the prior year, based on properties taxed in both years. It does not take in to account revenues from new properties in the current year.

The Voter-Approval Tax Rate (VAR) is essentially the NNR plus 3.5%. It is called the Voter-Approval Rate because *if it is exceeded*, the voters *must* ratify it during the November general election. Failure to ratify the enacted rate in that election will result in it being reset to the NNR rate.

The city’s tax collector, the Dallas County Tax Office (DCTO), calculates the No-New-Revenue Tax Rate and the Voter-Approval Tax Rate for the City based on information provided to it by the Dallas Central Appraisal District (DCAD). City staff then verifies the rate calculations.

The applicable rates for the 2022 tax year (FY2023) are as follows:

- 2021 adopted rate = 26.4388 per \$100 of taxable value
- 2022 NNR rate = 23.5145 cents per \$100 of taxable value
- 2022 VAR rate = 24.5977 cents per \$100 of taxable value

In addition to the rates above (which Council is familiar with) there is an additional rate that was calculated for the first time in 2021. This rate is the “Unused Increment Rate”. (Unofficially, it is referred to as “rollover minutes”).

According to the Texas State Comptrollers website:

The unused increment rate can be used to increase the voter- approval tax rate, depending upon the tax rates adopted by a city in the previous three years. The unused increment rate is the three-year rolling sum of the difference between the actual tax rate and the voter-approval tax rate. A city has the ability to bank any unused amounts below the voter-approval tax rate to use up to three years. Conversely, if a city adopts the voter-approval tax rate all three years, the unused increment rate would be zero. The unused increment rate is zero for tax years before 2020 and will not be available until 2021.

The Unused Increment Rate as of 2022 is as follows:

- For 2020 the unused portion is: 0.2876 cents/\$100.
- For 2021 the unused portion is: 0.7674 cents/\$100.
- Total Unused Increment for 2022 is: 1.055 cents/\$100.

Therefore, the maximum rate the City could adopt (VAR + Unused Increment) for 2022 is: 25.6527 cents/\$100 (24.5977 cents plus 1.055 cents).

Traditionally, City Council proposes a rate that affords them the maximum amount of fiscal flexibility during the budget process, without requiring ratification during the November general election. The 2022 VAR rate (plus Unused Increment) is the maximum rate allowable for 2022.

As the proposed tax rate for 2022 exceeds the 2022 NNR rate, Council must adopt the rate by roll call vote and provide the public with notice and opportunity to be heard. Notice and opportunity can be accomplished by publishing notice of, and then holding, one public hearing regarding the proposed tax rate. Notice will be published in the paper of record, the Daily Commercial Record. The public tax rate hearing will be conducted during the regularly scheduled City Council meeting of September 20, 2022, at University Park City Hall, 3800 University Blvd., University Park, TX.

At the conclusion of the tax rate hearing, Council may vote to adopt a tax rate at or below the published maximum - or announce the date, time and place of the meeting at which it will vote on the proposed tax rate, which cannot be more 7 days after the public hearing.

RECOMMENDATIONS:

1. Approve the resolution adopting the 2022 (FY23) maximum proposed property tax rate of 25.6527 cents per \$100 of taxable value and setting the date that the Council will adopt the final 2022 property tax rate; and,
2. Schedule a public hearing regarding the maximum proposed tax rate, to be held during the regularly scheduled City Council meeting of September 20, 2022.

ATTACHMENTS:

- Resolution adopting the 2022 (FY23) maximum proposed ad valorem tax rate and setting the date of the public hearing.
- 2022 Tax Rate Calculation Worksheet