



## **AGENDA MEMO**

### **9/20/2016 Agenda**

**TO:** Honorable Mayor and City Council

**FROM:** Thomas W. Tvardzik, Director of Finance

**SUBJECT:** CONTINUATION OF PUBLIC HEARING: FY2017 budget (and overview of related procedural items)

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#### **BACKGROUND**

The proposed FY2017 budget has been reviewed and recommended by three Advisory Committees - Employee Benefits, Finance, and Property/Casualty/Liability Insurance. Additionally, the Capital Projects Committee reviewed and recommended approval of the FY2017 capital budget, which will be brought to Council at a later date.

The City Council held two public hearings on the proposed property tax rate - on August 16, 2016 and September 6, 2016. At the second hearing a property tax rate of .248761 was proposed, a decrease of 1.017 cents from the previous year.

A public hearing on the proposed budget was held on September 6, 2016, which was continued until September 20, 2016. Staff has published the required notices of both the tax rate hearings and the budget hearing in the local newspaper and on the City website. Adoption of the budget occurs by ordinance, as does the property tax rate and pay plan.

#### **LEGISLATIVE REQUIREMENTS FOR ADOPTION**

Texas Local Government Code section 102.007 governs the process of municipal budget adoption. The first section, TLCG 102.007(a), specifies that the governing body of the municipality shall take action on a proposed budget at the conclusion of the public hearing. A vote to approve the budget at the conclusion of the hearing will fulfill this requirement. The vote must be a record vote.

TLGC 102.007(c) mandates that budgets raising more revenue from property taxes than the previous year also require a separate vote of the governing body to ratify the property tax increase reflected in the budget. This vote is in addition to (and separate from) the vote to adopt the budget or the vote to set the tax rate.

TLGC 102.007(d) requires a special cover page be affixed to the adopted budget that includes: (a) a specific statement on whether the budget raises more, less or the same amount of property tax revenue compared to the previous year's budget; (b) the record vote of each member of the governing body (by name) voting on the adoption of the budget; (c) the city property tax rates for the preceding and current fiscal years, including the adopted rate, effective tax rate, effective maintenance and operations tax rate,

rollback tax rate, and debt rate; and (d) the total amount of city debt obligations secured by property taxes.

Section 26.05 of the Texas Property Tax Code requires four specific items relating to a vote to adopt a tax rate: (a) the vote must be a record vote, (b) at least 60% of the governing body must vote in favor, (c) the motion to adopt the rate must adhere to the very specific language, **“I move that the property tax rate be increased by the adoption of a tax rate of 0.248761 percent, which is effectively a 3.46 percent increase in the tax rate”**, and (d) the ordinance, resolution or order setting the tax rate must contain the following specific statement in type larger than the rest of the document:

THIS TAX RATE WILL RAISE MORE TAXES FOR MAINTENANCE AND OPERATIONS THAN LAST YEAR'S TAX RATE.

THE TAX RATE WILL EFFECTIVELY BE RAISED BY 3.46 PERCENT AND WILL RAISE TAXES FOR MAINTENANCE AND OPERATIONS ON A \$100,000 HOME BY APPROXIMATELY \$-10.17.

***It is important to note that the second sentence of this legislatively mandated statement makes absolutely no sense.*** That is because the first half of the sentence refers to the percent by which the City tax rate exceeds the effective tax rate  $(.248761 - .240447) / .240447 = 3.46\%$ , while the second half of the sentence illustrates the difference between the FY2016 tax rate (.25893) and the FY2017 tax rate (.248761) as applied to a fictional \$100,000 home. If home values were to remain the same from year to year, and the City rate is decreasing - the tax would decrease as well. Using this same logic, the typical University Park homeowner would save approximately \$121.22.

## RECOMMENDATION

Staff recommends that the Council take the following actions to approve the FY2017 budget and related items:

1. **Hold the second half of the public hearing on the FY2017 budget.** At the conclusion of the hearing, the budget is ready for further action.
2. **Approve the ordinance adopting the FY2017 budget.** The total budget of \$50,266,924 is 3.3% higher than last year's \$48,658,980 adopted budget. The four budgeted funds are the General, Water and Sewer, Sanitation and Storm Water Funds.
3. **Vote to ratify the \$760,760 property tax increase.** This is a 4.3% increase in property taxes from the prior year. Of this increase, \$347,082 is due to new property added to the tax rolls.
4. **Approve the ordinance adopting the Tax Year 2016 (FY2017) property tax rate of \$0.248761 (24.8761 cents) per \$100 taxable value.** When making the motion to adopt the ordinance, use the language underlined above. The entire rate is dedicated for maintenance and operations, including budgeted amounts to be transferred to the capital projects fund; there is no debt service. The FY2017 tax rate of 0.248761 is 3.9% (1.02 cents) lower than FY2016 rate of 0.25893. The FY2017 Effective Tax Rate is \$0.240447 and is the rate that would raise as much property tax revenue as last year when applied to the same properties in both years. The FY2017 tax rate of \$0.248761 is 3.46% higher than the ETR.

5. **Approve the ordinance adopting the FY2017 salary plan.** The plan does NOT include any market-based salary adjustments and is effective October 1, 2016. Total full-time headcount decreased by one from FY2016, to a total of 246 employees.
6. **Approve the resolution amending the City's master fee schedule.** Among other minor changes, this will enact new water, sewer, sanitation and storm water rates, effective October 1, 2016.

## **ATTACHMENTS**

**None.**