Memorandum

As part of your Budget Workshop on Monday, August 23rd, the attached briefing (Property Tax Rate: Legal Options and Discussion) will be presented.

Council action will be required following the presentation if the Council desires to maintain the option of considering a tax rate on September 22nd that would exceed the Notice and Hearing Tax Rate of 79.72¢ per $100 of valuation. If no vote is taken, the maximum tax rate allowed for FY 2010-11 is 79.72¢.

The FY 2010-11 proposed budget submitted to you on August 9th has a proposed tax rate of 74.79¢ which is the same as the current tax rate.

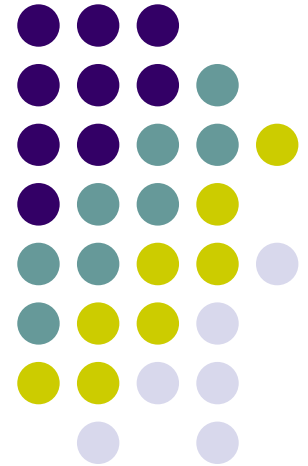Please contact me if you have any questions or require additional information.

Mary K. Suhm
City Manager

c: Thomas P. Perkins, Jr., City Attorney
        Deborah A. Watkins, City Secretary
        Craig Kinton, City Auditor
        C. Victor Lander, Judiciary
        Ryan S. Evans, First Assistant City Manager
        Jill A. Jordan, P.E., Assistant City Manager
        A.C. Gonzales, Assistant City Manager
        Forest Turner, Assistant City Manager
        Jeanne Chipperfield, Chief Financial Officer
        Helena Stevens-Thompson, Assistant to the City Manager
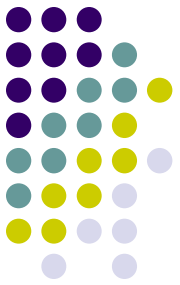
Property Tax Rate: Legal Options and Discussion

City Council Briefing

August 23, 2010

Key Focus Area

E³

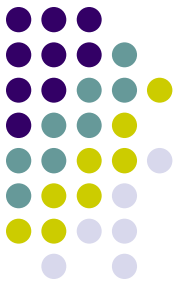Efficient, Effective, Economical Government

State Taxation Law

- Requires public notice of tax rate calculations

- Allows taxpayers to roll back or limit tax increase in certain cases

- Current ad valorem tax rate = 74.79¢

- FY11 budget proposed tax rate = 74.79¢
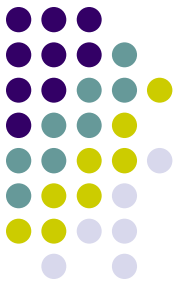
Effective Tax Rate

- The Effective Rate is the rate that generates the same amount of revenue in the new fiscal year on property that was taxed in the previous fiscal year
  - New construction not included in calculation

- FY11 Effective Rate = 79.72¢
  - 4.93¢ increase above current/proposed rate

- If the tax rate were set at the Effective Rate, revenues would <u>increase</u> by $39.7m
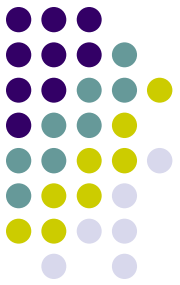
Rollback Tax Rate

- The Rollback Rate is the rate that if exceeded provides voters an opportunity to limit the tax rate increase through a citywide Rollback Election

- The Rollback Rate is the effective general fund rate plus 8%, plus the tax rate required to pay debt service

- The Rollback Rate divides the overall property taxes into two categories
  - General Fund
  - Debt Service

- The Rollback Rate includes an 8% increase on general fund taxes

Rollback Tax Rate (continued)
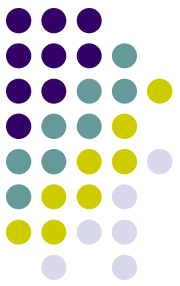
- FY11 calculated Rollback Rate =
  - General Fund   55.8374¢
  - Debt Service   26.5157¢
                          82.3531¢
  - 7.56¢ increase above current/proposed rate

- If the tax rate were set at the Rollback Rate, revenues would increase by $60.8m

- If the debt service rate changes (as a result of Council amendments to the budget), the Rollback Rate changes

- If the adopted tax rate exceeds the Rollback Rate, voters have the option to petition for a Rollback Election and limit the tax rate increase – see Appendix (slides15-17) for additional requirements

Notice and Hearing Rate

- The Notice and Hearing rate is the lower of either the Effective (79.72¢) or the Rollback (82.35¢) rate

- FY11 Notice and Hearing rate = 79.72¢
  - 4.93¢ increase above current/proposed rate

- If the tax rate were set at the Notice and Hearing Rate, revenues would <u>increase</u> by $39.7m
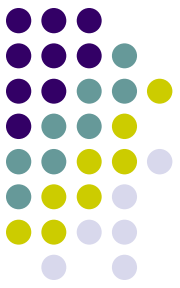
Notice and Hearing Rate Requirements

- In order for a taxing unit to adopt a rate above the Notice and Hearing rate the following requirements must be met:
  - Take a record vote for or against <u>consideration</u> of a <u>specific tax rate</u> higher than the Notice and Hearing tax rate
  - Publish notice of the date and time for the 2 public hearings and the results of the record vote
  - Hold 2 public hearings on the tax rate
  - Publish *Notice of Tax Revenue Increase*
    - Includes date and time for the vote to set the tax rate
  - Vote on the tax rate
  - Ratify the increase in taxes in a separate vote
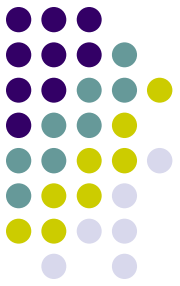
Tax Rate Recap

- Recap of tax rates
  - Current = 74.79¢
    - Rate adopted for FY10
  - Proposed = 74.79¢
    - Rate included in City Manager proposed budget for FY11
  - Effective = 79.72¢ (4.93¢ increase)
    - Generates same amount of revenue in the new year as generated in the previous year
  - Rollback = 82.35¢ (7.56¢ increase)
    - Effective general fund rate plus 8%, plus rate necessary to pay debt service
    - Rate that if exceeded provides voters opportunity to limit tax rate increase through citywide Rollback Election
  - Notice and Hearing = 79.72¢ (4.93¢ increase)
    - Lower of either the Effective or the Rollback rate

- 1¢ generates about $8.0 million in tax revenue

City of Dallas Tax Bill Impact

- Property valued at $100,000 in 2009 with a 20% homestead exemption and tax rate of 74.79¢ had a tax bill = $598
- Average residential property experienced 1.53% loss in 2010
- Same property now valued at $98,470 in 2010 with a 20% homestead exemption and tax rate of 74.79¢ will have a tax bill = $589 ($9 less than 2009)
- Adjustments to the tax rate will impact the tax bill
  - Increasing tax rate by 1¢ to 75.79¢ would change tax bill for this property = $597 ($1 less than 2009)
  - Increasing tax rate by 2¢ to 76.79¢ would change tax bill for this property = $605 ($7 increase over 2009)
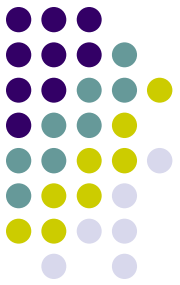 - Increasing tax rate by 3¢ to 77.79¢ would change tax bill for this property = $613 ($15 increase over 2009)

City of Dallas Tax Bill
with 20% Homestead Exemption

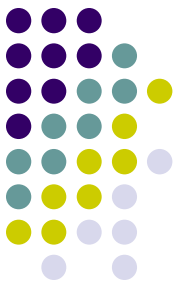| **2009 Tax Year**		**2010 Tax Year**				
2009 Property Value	Tax Bill: 74.79¢ at 2009 Value	2010 Property Value, 1.53% decline	Tax Bill: 74.79¢ at 2010 Value	+1¢ = 75.79¢	+2¢ = 76.79¢	+3¢ = 77.79¢
				Variance from 74.79¢ at 2009 Property Value		
$100,000	$598	$98,470	$9 Decrease $589	$1 Decrease $597	$7 Increase $605	$15 Increase $613
$200,000	$1,197	$196,940	$19 Decrease $1,178	$3 Decrease $1,194	$13 Increase $1,210	$29 Increase $1,226
Average $216,059	$1,293	Average $212,753	$20 Decrease $1,273	$3 Decrease $1,290	$14 Increase $1,307	$31 Increase $1,324
$300,000	$1,795	$295,410	$28 Decrease $1,767	$4 Decrease $1,791	$20 Increase $1,815	$44 Increase $1,839

Note: Amounts are rounded to nearest whole dollar.

Schedule – <u>August 23rd</u>

- Take record vote to <u>consider</u> a <u>specific tax rate</u> that exceeds the ***Notice and Hearing*** rate

- Call public hearings on the tax rate for Wednesday, September 8 and Monday, September 13

- If no vote is taken today, maximum tax rate is 79.72¢
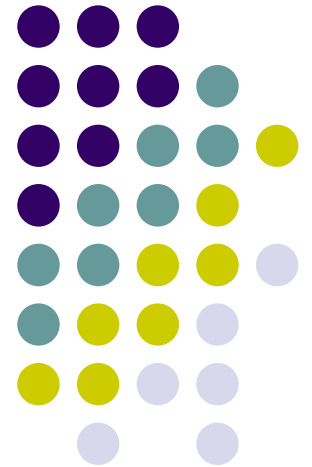
Schedule – August 23rd (continued)

- If the Council wishes to <u>consider</u> a different rate than the posted rate, the resolution could be amended (from the floor) to consider any tax rate

- The tax rate <u>considered</u> in today's resolution becomes the <u>maximum</u> tax rate the Council could set on Wednesday, September 22

- If no action to consider a tax rate is taken today, the maximum rate allowed for FY11 would be 79.72¢
  - The notice and 2 tax rate public hearings are not required to adopt a tax rate below this rate
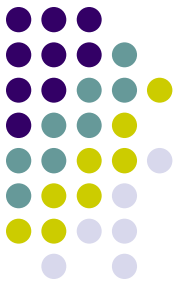
Schedule (continued)

Wednesday, September 1	Publish the notice of public hearings and results of the record vote on the tax rate; if necessary
Wednesday, September 8 (1 p.m.)	Hold 1st public hearing – if called (City Council Chambers)
Monday, September 13 (9 a.m.)	Hold 2nd public hearing – if called (City Hall Room 6ES)
Wednesday, September 15	Publish *Notice of Tax Revenue Increase*; if necessary
Wednesday, September 22	Vote on Tax Rate
	Ratify increase in taxes in a separate vote, if necessary

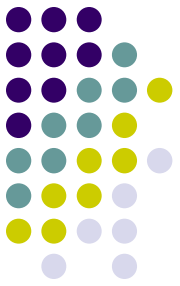# Appendix

Rollback Petition: Voter Options

- If the adopted tax rate exceeds the Rollback Rate, voters have option to petition for an election

- At least 10% of the registered voters shown on the City's most recent official voter list must sign the petition

- Petition must be submitted to the City within 90 days of the tax rate adoption
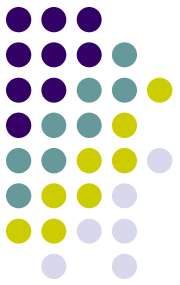
Rollback Petition: City's Responsibility

- City's responsibility after receiving a petition for rollback election include:

- Determine if the petition is valid and pass a resolution regarding its validity within 20 days of receipt

- Set a rollback election date 30 to 90 days after the governing body rules on the validity of the petition

- If the rollback election fails, the adopted tax rate stands

Rollback Petition: City's Responsibility (continued)

- If the rollback election passes, a city must reduce its tax rate for the current year to the rollback rate

- If the rollback election passes, the assessor must:
    - Prepare and mail new tax bills
    - Refund any taxes paid under original rate
    - Postpone the delinquency date by the number of days between the date original bills were mailed and the date the corrected bills were mailed

Tax Rate History

Fiscal Year	Change from Prior FY	Tax Rate
FY90	+5.11¢	58.83¢
FY91	+4.14¢	62.97¢
FY92		62.97¢
FY93	+4.47¢	67.44¢
FY94		67.44¢
FY95		67.44¢
FY96	-0.22¢	67.22¢
FY97	-0.21¢	67.01¢
FY98	-1.85¢	65.16¢
FY99	-0.25¢	64.91¢

Fiscal Year	Change from Prior FY	Tax Rate
FY00	+1.84¢	66.75¢
FY01		66.75¢
FY02		66.75¢
FY03	+3.23¢	69.98¢
FY04		69.98¢
FY05	+1.99¢	71.97¢
FY06	+2.20¢	74.17¢
FY07	-1.25¢	72.92¢
FY08	+1.87¢	74.79¢
FY09		74.79¢

Fiscal Year		Tax Rate
FY10	Current	74.79¢
FY11	Proposed	74.79¢