FY 2019-20 Property Tax Rate State Law Requirements

City Council Briefing
August 13, 2019

M. Elizabeth Reich, Chief Financial Officer

Jack Ireland, Director
Office of Budget
Overview

• Provide overview of property tax
• Review state law requirements
  • Effective tax rate
  • Rollback tax rate
• Review schedule for adopting a tax rate
Property Tax Overview

• Property tax is the single largest source of revenue for City of Dallas and totals $1.1 billion as proposed for FY 2019-20
  • General Fund – $792.1 million
  • Debt Service – $287.4 million

• Property tax is composed of three factors:
  • Tax base value certified by four appraisal districts
  • Tax exemptions allowed by state law and approved by City Council
  • Tax rate set by City Council
Property Tax Base Value and Growth

- Collin, Dallas, Denton, and Rockwall Appraisal Districts are required to certify values by July 25 of each year.
- Certified tax base values for tax year 2019 (FY 2019-20) are $140.2 billion, or 7.81% higher than FY 2018-19 certified values.

<table>
<thead>
<tr>
<th>Values by Type of Property</th>
<th>FY 2018-19 ($ in billions)</th>
<th>FY 2019-20 ($ in billions)</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>$57.8</td>
<td>$63.2</td>
<td>9.3%</td>
</tr>
<tr>
<td>Non-residential*</td>
<td>$72.3</td>
<td>$77.1</td>
<td>6.6%</td>
</tr>
<tr>
<td>Total</td>
<td>$130.1</td>
<td>$140.2</td>
<td>7.8%</td>
</tr>
</tbody>
</table>

*Non-residential includes commercial and business personal property.
Property Tax Exemptions

• City-approved exemptions, plus those allowed by state law, result in property value being exempt from taxation
  • Exempt property value = $41.6 billion
  • Revenue foregone = $324.6 million

• City Council approved a 20% homestead exemption on April 13, 1988, the maximum allowed by the state

• City Council established the 65 and over or disabled exemption on April 23, 1986; and approved an increase in the exemption from $90,000 to $100,000 on June 12, 2019
Property Tax Rate

• Each September, City Council sets a property tax rate necessary to support the City’s annual budget

• Proposed tax rate for FY 2019-20 is 78.00¢ per $100 of valuation, which is 0.33¢ higher than current year tax rate of 77.67¢
  • Increased tax rate will generate $4.5 million additional revenue
  • Tax rate increase is recommended to support public safety
Property Tax Rate

Year-over-Year Change in Tax Rate
in cents per $100 valuation

Government Performance and Financial Management
Property Tax Rate

Tax rate is split between:

- General Fund, which supports day-to-day operations
- Debt Service Fund, which is used to pay City’s general obligation long-term debt

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>General Fund</th>
<th>Debt Service</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2015-16</td>
<td>56.46¢ (70.8%)</td>
<td>23.24¢ (29.2%)</td>
<td>79.70¢</td>
</tr>
<tr>
<td>FY 2016-17</td>
<td>56.01¢ (71.6%)</td>
<td>22.24¢ (28.4%)</td>
<td>78.25¢</td>
</tr>
<tr>
<td>FY 2017-18</td>
<td>55.80¢ (71.5%)</td>
<td>22.24¢ (28.5%)</td>
<td>78.04¢</td>
</tr>
<tr>
<td>FY 2018-19</td>
<td>56.67¢ (73.0%)</td>
<td>21.00¢ (27.0%)</td>
<td>77.67¢</td>
</tr>
<tr>
<td>FY 2019-20</td>
<td>57.25¢ (73.4%)</td>
<td>20.75¢ (26.6%)</td>
<td>78.00¢</td>
</tr>
</tbody>
</table>
State Requirements

• State law governs property taxes in Texas and ensures property owners are given notice and have certain rights.

• FY 2019-20 will continue to be governed by existing State law, however, Senate Bill 2 will become effective 1/1/20 and impact FY 2020-21 budget development:
  • Slides from 6/18/19 are included in Appendix.

• If the proposed tax rate exceeds the lower of the Effective Tax Rate or the Rollback Tax Rate, the City is required to publish the calculated rates and hold two public hearings:
  • Dallas County Tax Office calculates Effective and Rollback Tax Rates for the City.
  • Public notice of proposed tax rate calculations will be published in Dallas Morning News, Al Dia, and Dallas Weekly and posted on City’s website on August 23.

• State law allows taxpayers to roll back or limit tax increase in certain cases.
State law mandates specific requirements and language for the public notice:

- Language included in notice must match language as it appears in Local Government Code
- Must be at least a quarter-page in newspaper with a headline in 24-point type or larger
- May not be in legal or classified section of newspaper
- Must be published no later than September 1 or the 30th day after receiving the certified tax roll, whichever is later
- Must be posted on website until City adopts a tax rate
Effective Tax Rate

- Effective Tax Rate is the rate that generates the same amount of revenue in the new fiscal year on property taxed in the previous fiscal year
  - New construction is excluded from this calculation
- FY 2019-20 Effective Tax Rate = 74.72¢
  - 3.28¢ less than proposed rate
- If tax rate were set at Effective Tax Rate, proposed revenue for FY 2019-20 would decrease by $45 million and expenses would need to be reduced by an equivalent amount
Rollback Tax Rate

- Rollback Tax Rate is the rate that, if exceeded, provides voters an opportunity to limit tax rate increase through a petition process to call a citywide Rollback Election.
- Rollback Tax Rate divides overall property taxes into two categories: General Fund and Debt Service.
- Rollback Tax Rate is the effective General Fund rate plus 8%, plus the tax rate required to pay Debt Service.
Rollback Tax Rate

• FY 2019-20 Rollback Tax Rate = 79.62¢
  • 1.62¢ increase above proposed rate

• If tax rate were set at the Rollback Tax Rate, proposed revenue for FY 2019-20 would increase by $22.2 million

• If debt service rate changes as a result of City Council amendments to the budget, the Rollback Tax Rate changes

• If adopted tax rate exceeds the Rollback Tax Rate, voters have option to petition for a Rollback Election and limit tax rate increase
Tax Rate Adoption

- For a taxing unit to adopt a rate above the lower of the Effective Tax Rate (74.72¢) or the Rollback Tax Rate (79.62¢), the following requirements must be met:
  - Take a record vote for or against consideration of a specific tax rate higher than the Effective Tax Rate (74.72¢)
  - Publish notice of date and time for two public hearings
  - Hold two public hearings on tax rate
  - Vote on tax rate
  - Ratify increase in taxes in a separate vote
Tax Rate Recap

• Current = 77.67¢
  • Rate adopted for FY 2018-19
• Proposed = 78.00¢
  • Rate included in City Manager’s proposed budget
• Effective = 74.72¢ (3.28¢ or $45 million revenue decrease)
  • Generates same amount of revenue in new year as generated in previous year
• Rollback = 79.62¢ (1.62¢ or $22.2 million revenue increase)
  • Effective General Fund rate plus 8%, plus rate necessary to pay debt service
  • Rate that if exceeded provides voters the opportunity to limit tax rate increase through citywide Rollback Election
Schedule – August 13th

• Tax rate considered on today’s resolution becomes **maximum** tax rate Council may set on Wednesday, September 18

• Take a record vote to consider a specific tax rate that exceeds the Effective Tax Rate (74.72¢)

• If Council wishes to consider a different rate than the posted rate (78.00¢), resolution can be amended (from floor) to consider an alternative tax rate

• Call public hearings on tax rate for Wednesday, September 4 and Wednesday, September 11

• If no vote is taken, the FY 2019-20 maximum tax rate will be 74.72¢, which will decrease revenues by $45 million and require an equal reduction in General Fund expenses
# Schedule

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuesday, August 13</td>
<td>Take record vote to establish maximum tax rate that can be approved on September 18</td>
</tr>
<tr>
<td>Friday, August 23</td>
<td>Publish Notice of 2018 Tax Year Proposed Property Tax Rate</td>
</tr>
<tr>
<td>Wednesday, September 4</td>
<td>Hold first public hearing – if called (City Hall, Room 6ES)</td>
</tr>
<tr>
<td>Wednesday, September 11</td>
<td>Hold second public hearing – if called (City Hall, Council Chambers)</td>
</tr>
<tr>
<td>Wednesday, September 18</td>
<td>Vote on tax rate and ratify increase in taxes in a separate vote, if necessary</td>
</tr>
</tbody>
</table>
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Appendix
Legislative Change: SB2 (6/18/19 briefing)

- Texas Property Tax Reform and Transparency Act of 2019 (SB2) will cap the City’s ability to grow property tax revenue at 3.5% instead of 8% without seeking voter approval
  - Applies to reappraisals for the General Fund
  - Continues to exclude revenue needed to pay voter-approved debt
  - Growth from new construction does not count against the cap
Legislative Change: SB2 (6/18/19 briefing)

• Exceeding the 3.5% cap is allowed, but requires an election on the November uniform election date

• City Council must adopt the budget before it adopts the tax rate

• City Council must adopt the tax rate no later than the 71st day before the November uniform election date (mid- to late August)
**Legislative Change: SB2 (6/18/19 briefing)**

- SB2 will not affect FY 2019-20 but will affect FY 2020-21 (effective date 1/1/20)
  - Although property tax values are forecast to continue to grow for FY 2020-21, City will likely be unable to take advantage of all growth without voter approval
  - City may be required to reduce the property tax rate to avoid exceeding revenue cap
- If SB2 had been in effect September 2018, $25.1 million in revenue and expense reductions would have been required to balance FY 2018-19 budget
Historical Property Tax Rate – Tax Rate Distribution (¢/$100 value)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>General Fund</th>
<th>Debt Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY08</td>
<td>51.96</td>
<td>22.83</td>
</tr>
<tr>
<td>FY09</td>
<td>52.30</td>
<td>22.49</td>
</tr>
<tr>
<td>FY10</td>
<td>49.18</td>
<td>25.61</td>
</tr>
<tr>
<td>FY11</td>
<td>53.24</td>
<td>26.46</td>
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<tr>
<td>FY12</td>
<td>53.79</td>
<td>25.91</td>
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<tr>
<td>FY13</td>
<td>54.39</td>
<td>25.31</td>
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<tr>
<td>FY14</td>
<td>56.01</td>
<td>23.69</td>
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<tr>
<td>FY15</td>
<td>56.10</td>
<td>23.24</td>
</tr>
<tr>
<td>FY16</td>
<td>56.10</td>
<td>23.24</td>
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<tr>
<td>FY17</td>
<td>56.01</td>
<td>22.24</td>
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<tr>
<td>FY18</td>
<td>56.01</td>
<td>22.24</td>
</tr>
<tr>
<td>FY19</td>
<td>56.67</td>
<td>21.00</td>
</tr>
<tr>
<td>FY20</td>
<td>57.25</td>
<td>20.75</td>
</tr>
</tbody>
</table>
Historical Property Tax Rate – Tax Rate Distribution

FY08  FY09  FY10  FY11  FY12  FY13  FY14  FY15  FY16  FY17  FY18  FY19  FY20

0%     10%    20%    30%    40%    50%    60%    70%    80%    90%    100%

69.5%  69.9%  65.8%  67.5%  68.2%  70.3%  70.8%  70.8%  71.6%  71.5%  73.0%  73.4%

30.5%  30.1%  34.2%  32.5%  31.8%  29.7%  29.2%  29.2%  28.4%  28.5%  27.0%  26.6%

General Fund  Debt Service
# Tax Rate Change Impact

<table>
<thead>
<tr>
<th>Tax Rate Change per $100 Valuation</th>
<th>Revenue Impact</th>
<th>Annual Tax Bill Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>$100K residential property with Homestead Exemption</td>
</tr>
<tr>
<td>1.00¢</td>
<td>$13,708,228</td>
<td>$8.00</td>
</tr>
<tr>
<td>0.75¢</td>
<td>$10,281,171</td>
<td>$6.00</td>
</tr>
<tr>
<td>0.50¢</td>
<td>$6,854,114</td>
<td>$4.00</td>
</tr>
<tr>
<td>0.25¢</td>
<td>$3,427,057</td>
<td>$2.00</td>
</tr>
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</table>