



VOTER APPROVAL TAX RATE

City Council Meeting July 7, 2020



RESOLUTION NO. 20-17

Setting Voter Approval Tax Rate

Background

- COVID-19 is impacting the City's finances
- Impacted revenues:
 - Sales Tax
 - Mixed Beverage Tax
 - Court Fines
 - Hotel Occupancy Taxes
 - Charges for Services
- Increased expenses for response and protection

FY21 Budget Strategies

- Budget strategies discussed at June planning retreat:
 - Reducing current year expenditures to ensure ending FY20 in a positive financial position
 - Delay FY21 major expenditures until there is more certainty in economic recovery and to ensure funds are available, providing maximum flexibility for implementation of the budget
 - Revised implementation plan for GO Bond projects
 - Focus on projects to address structural flooding

Council Direction

- Revenue is part of the overall budget strategy
 - Sales tax anticipated to be down from prior year
 - Flexibility: allocate tax rate within total between debt & operations
- Council requested staff to bring forward Resolution
 - Consider a higher voter approval tax rate
 - Maximize flexibility for FY21 budget and tax rate

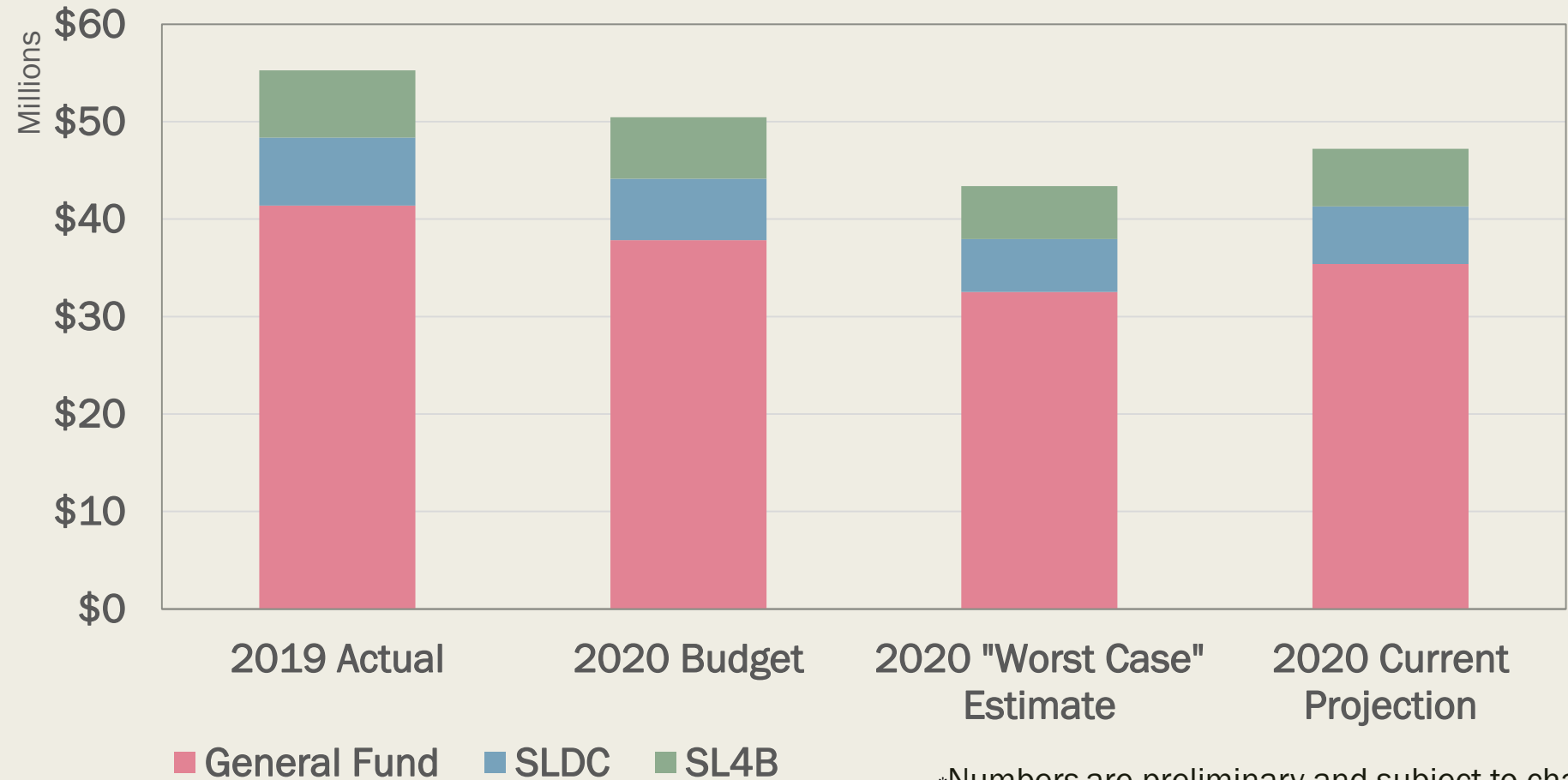
Finance/Audit Committee

- Discussion with Finance/Audit Committee on July 2
 - This step allows the City to have the same flexibility that existed prior to SB2
 - Language is confusing but required by tax code
 - Focus on financial resiliency, responsible decision making and flexibility
 - Delay setting tax rate as long as possible to allow the maximum information to be available to assist

Disaster Declaration

- March 12: Fort Bend County issued Disaster Declaration for Public Health Emergency to take measures to reduce the possibility of exposure to COVID-19 and promote the health and safety of Fort Bend County residents
- March 13: Governor Abbott declared a state of disaster for all counties in Texas as a result of the spread of the novel coronavirus, COVID-19

Sales Tax: FY20 Update





*Numbers are preliminary and subject to change

Reaction to Financial & Economic Impact

- Projected worst case scenario for key revenues
- Took action in accordance with FMPS on expenditures
 - Freeze travel/training
 - Hiring freeze
 - Reduced budgets based on historical savings
 - Hold on new initiatives/programs
 - Capture savings in fixed costs
- Shifted FY21 budget efforts to development of packages based on recovery models


Key Changes from SB2

- 86th legislature passed Senate Bill 2 changing the process for local government property tax rates
- Effective Rate  No New Revenue Rate
 - Same calculations, new name
- Rollback Rate (8%)  Voter Approval Rate (3.5%)
 - Applies to increases on the maintenance & operations portion of tax rate only
 - Mandatory election in November if exceeded

No New Revenue Tax Rate

- Same calculation from previous versions
- Tax rate that raises the same amount of revenue as last year, excluding new value to the tax roll
- Applies to the total tax rate:
 - Maintenance & Operations (M&O)
 - Debt Service

Voter Approval Tax Rate

- Allows for 3.5% increase in revenue over the no new revenue tax rate
- Applies to M&O portion only
- If adopted rate exceeds 3.5%  mandatory election in November
 - Election must be called 71 days prior
 - Budget & tax rate must be approved by Aug 24

Texas Tax Code

- Allows the City Council to direct the designated officer to calculate the voter-approval tax rate in the manner provided for a special taxing unit (8%) if any part of the city is located in an area declared a disaster area by the Governor or by the President of the United States
- Exempts city from automatic tax rate election for the year following the disaster

Common Questions

- Why are we doing this?
 - Economic uncertainty from COVID-19
 - Delayed impacts on City's revenue
 - Maximize flexibility in the FY21 budget process
 - Adds another month to the decision timeline rather than accelerating it
 - Allows the City Council to get as much information as possible before setting tax rate

Common Questions

- Is this action proposing or setting the tax rate?
 - No, this is not an action on the tax rate
 - Don't have required info to calculate the tax rate
 - Council will propose a tax rate in August
- What is the process to set the tax rate?
 - Certified tax roll expected late July
 - Calculate Voter Approval Tax Rate
 - Publish notices
 - Public hearing on tax rate
 - Vote on tax rate

Common Questions

- Does this mean we are raising taxes by 8%?
 - No, this action simply provides flexibility for allocation of the tax rate to best meet the City's needs
- When do taxpayers have an opportunity for input?
 - A public hearing on the proposed 2020 tax rate will be held in September
 - Notices will be published

Next Steps

- Voter Approval tax rate calculations to be completed
 - Staff present calculations to Council by Aug 7th
- Publish Truth in Taxation calculations and Notice of Proposed Tax Rate
- August: workshops for FY21 budget
- Public Hearing on FY21 Proposed Budget

Next Steps

- Public Hearing on 2020 Proposed Tax Rate
 - New Requirement: Must adopt tax rate within 7 days of public hearing on tax rate
 - Public Hearing on Tax Rate expected Sept 8-11
 - Date published as part of Notice of Tax Rate
 - Special meeting must be called due to new time requirement from SB2
- Adopt FY21 Budget, CIP and Tax Rate (Sept 15)

Recommended Action

- After discussion with City Council at the June planning retreat, and to provide maximum flexibility to the City in these uncertain times, staff recommends
- City Council approval of Resolution No. 20-17 directing the Director of Finance to calculate the voter-approval tax rate using 8% instead of 3.5% pursuant to Section 26.04(c-1) of the Tax Code

CLARIFYING QUESTIONS FOR STAFF



COUNCIL DISCUSSION AND ACTION

