

AGENDA ITEM NO. **23**

CITY OF SAN ANTONIO
INTERDEPARTMENTAL MEMORANDUM
OFFICE OF MANAGEMENT & BUDGET AND FINANCE DEPARTMENT

TO: Mayor and City Council

FROM: Peter Zanoni, Acting Director, Office of Management and Budget
Milo Nitschke, Director, Finance Department

THROUGH: Terry M. Brechtel, City Manager

COPIES: Executive Team; File

SUBJECT: Proposed Ad Valorem Tax Rate for FY 2005

DATE: August 19, 2004

SUMMARY AND RECOMMENDATION

This ordinance sets a proposed ad valorem tax rate for FY 2005 at 57.854 cents per \$100 of taxable valuation which is the tax rate recommended in the City Manager's FY 2005 Proposed Budget. **This is the same tax rate adopted for the current fiscal year.** The proposed tax rate includes 36.704 cents per \$100 of taxable valuation for Maintenance and Operations and 21.150 cents per \$100 of taxable valuation for Debt Service. Staff recommends approval of this ordinance.

BACKGROUND INFORMATION

The FY 2005 Budget process includes action by the City Council of adopting a proposed tax rate for FY 2005 and an adopting a final tax rate for the fiscal year. These actions require several steps, many of which are state mandated. The following calendar details each of the actions and steps required in setting a proposed and a final tax rate.

<u>Date</u>	<u>Action</u>
Monday, July 26, 2004	Deadline for Chief Appraiser to certify tax roll
Monday, July 26, 2004	Calculation of effective and rollback tax rates
Thursday, August 5, 2004	Consideration of an ordinance setting the dates, times and place for public hearings on the proposed budget and tax rate for FY 2005
Sunday, August 15, 2004	Publication in general circulation newspaper of effective and rollback tax rates and schedules

<u>Date</u>	<u>Action</u>
Thursday, August 19, 2004	Meeting of governing body to discuss proposed tax rate; if proposed tax rate exceeds the rollback tax rate or 103% of the effective tax rate (whichever is lower), take a record vote and schedule a public hearing
Sunday August 22, 2004	<i>"Notice of Public Hearing on Tax Increase"</i> published in general circulation newspaper at least seven days before public hearing, <u>if necessary</u>
Thursday September 2, 2004	Public hearing; schedule and announce meeting to adopt tax rates 3-14 days from this date
Sunday, September 5, 2004	<i>"Notice of Vote on Tax Rate"</i> published in general circulation newspaper before meeting to adopt tax rate, <u>if necessary</u>
Thursday, September 16, 2004	Meeting of governing body to adopt tax rates

Historically, the City of San Antonio has held a public hearing regarding its proposed tax rate whether or not it was specifically required to do so by law. (Effective January 1, 2000, a taxing unit is required to hold a public hearing and publish newspaper ads before adopting a tax rate that exceeds the lower of the rollback tax rate or 103 percent of the effective tax rate.)

State law also requires taxing units to include a statement that adopting a tax rate equal to the effective tax rate would result in either an increase or decrease in the unit's taxes compared to last year's taxes and a statement that details the amount of the increase or decrease. This ***Effective Tax Rate Publication*** will be included in the Sunday, August 15, 2004 Express-News.

Because the proposed tax rate (57.854 cents) does not exceed 103 percent of the effective tax rate (58.296 cents) a public hearing or newspaper ad detailing the City Council record vote are not required. However, as stated above, it is the policy of the City of San Antonio to hold a public hearing on its proposed tax rate whether or not required by State law. The Tax Rate Public Hearing this year is schedule for September 2, 2004 at 3:00 PM.

POLICY ANALYSIS

Property tax values are determined by the Bexar Appraisal District (BAD) in conformance with State law. Values for the City of San Antonio recently reported by BAD for FY 2005 show an increase in net taxable value of approximately \$2.099 billion, or 4.71% above last year. Included in this total are \$1.245 billion for new improvements and \$69,500 in annexations, which equates to real growth of 2.80% over last year's total taxable value. The taxable value less new improvements and annexations yields the base valuation. The increase in the base valuation from last year is \$854 million or 1.91%.

The FY 2005 rollback tax rate is 59.938 cents per \$100 taxable valuation and the effective tax rate is 56.599 cents. The FY 2005 proposed tax rate of 57.854 cents per \$100 taxable valuation is 1.255 cents or 2.22% higher than the effective tax rate. Since the proposed tax rate does not exceed 103% of the effective tax rate (58.296 cents), approval of this ordinance does not require the City Council to hold a public hearing and publish notices pursuant to Truth-In-Taxation guidelines including publishing the roll-call vote on the way each City Council Member voted toward the proposed property tax rate. However, as previously stated, it is the policy of the City to hold a public hearing on the proposed tax rate. The public hearing has been scheduled for September 2, 2004 at 3:00 PM.

State property tax law also requires taxing units to calculate the M&O portion of the tax rate to yield the same amount of operating revenue from year to year based on base valuations. As indicated on the previous page, base valuation increased from last year by \$854 million or 1.91%. Consequently, for FY 2005 to generate the same amount of operating revenue as in FY 2004, the effective M&O tax rate is calculated at 35.915 cents per \$100 of taxable valuation, a decrease from the FY 2004 adopted M&O tax rate (36.704 cents) of 0.789 cents. Calculation of the debt service portion of the property tax rate, on the other hand, is dependent on the City's debt service requirements.

To meet the requirements of the program of General Fund services recommended in the FY 2005 Proposed Budget, the overall property tax rate for FY 2005 is maintained at the same level set for FY 2004 or 57.854 cents per \$100 taxable valuation. The proposed M&O tax rate is 36.704 cents per \$100 taxable valuation or equal to the FY 2004 M&O tax rate. The proposed M&O rate is 0.789 cents, or 2.20% above the effective M&O rate of 35.915 cents per \$100 taxable valuation. The proposed debt service rate is 21.150 cents per \$100 taxable valuation or equal to the FY 2004 debt service tax rate and is consistent with the requirements of the City's Debt Management Plan. The following table shows the components of the FY 2005 proposed tax rate compared to the FY 2004 adopted property tax rate.

**Adopted FY 2004 and Proposed FY 2005
Property Tax Rates - Per \$100 Valuation**

	FY 2004 <u>Adopted</u>	FY 2005 <u>Proposed</u>	Diff. <u>Cents</u>	% <u>Diff.</u>
Maintenance & Operations	36.704	36.704	00.000	0.00%
Debt Service	<u>21.150</u>	<u>21.150</u>	<u>00.000</u>	<u>0.00%</u>
Total	57.854	57.854	00.000	0.00%

The proposed tax rate included in this ordinance is consistent with the FY 2005 Proposed Budget.

Approval of this ordinance does not eliminate the option for City Council to increase the overall tax rate above the proposed tax rate. City Council could increase the overall proposed tax rate by \$0.442 cents (\$2.013 million in revenue) without exceeding 103% of the effective tax rate (58.296 cents). Additionally, a lower tax rate may be adopted. The City Council will adopt the final tax rates in separate ordinances scheduled for September 16, 2004.

FINANCIAL IMPACT

The proposed tax rate for FY 2005 of 57.854 cents per \$100 of taxable valuation will generate \$166.436 million in revenues for General Fund operations and \$95.906 million in revenues for payment of debt from the Debt Service Fund assuming a 97.5% collection rate.

COORDINATION

This item has been coordinated between the Office of Management and Budget and the Finance Department.

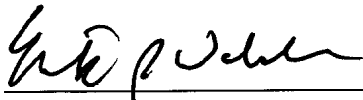
SIGNATURES



Peter Zanoni
Acting Director, Office of Management and Budget



Milo Nitschke
Director, Finance Department



Erik Walsh
Assistant to the City Manager



Melissa Byrne Vossmer
Assistant City Manager

Approved:



Terry M. Brechtel
City Manager