



City of Galveston

FINANCE

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September 9, 2021

To: Brian Maxwell, City Manager
Hon. Mayor and City Council Members

From: Michael W. Loftin, Assistant City Manager Finance

RE: Consider for approval an ordinance of the City of Galveston, Texas levying ad valorem taxes for tax year 2021 in the amount of 49 cents and 8.500 mills (\$0.498500) upon each one hundred dollars (\$100.00) of property valuation for the tax year 2021; Making various findings and provisions related to the subject.

I. Background

- A. If approved, this item will set a property tax rate for tax year 2021 of \$0.4985 per \$100 of taxable property value, which is 7.075 percent higher than the No New Revenue rate of \$0.465558 and 0.01 percent less than the Voter Approval rate of \$0.498537.
- B. Council approval also will adopt a rate of \$0.0525 for debt service and \$0.446 for maintenance and operations (M&O). Included in the M&O rate is \$0.05 per \$100 of taxable property value for the Rosenberg Library.
- C. Section 102.009(a) of the Local Government Codes states "The governing body of the municipality may levy taxes only in accordance with the budget." At the September 9, 2021 meeting, the City Council may have approved the FY 2021 Proposed Budget based on a property tax rate of \$0.4985 per \$100 of valuation prior to the consideration of this action adopting the same rate.
- D. This is 6.15 cents lower than last year's tax rate of \$0.4985 per \$100 of taxable property value, all of which is reduced from last year's M&O rate. This rate reduction is then reduced from the General Fund share of the total M&O rate.

II. Current Situation

- A. The State Tax Code in Section 26.05(b) provides for specific language to be used in the motion to adopt the tax rate ordinance as proposed:

"I move that the property tax rate be increased by the adoption of a tax rate of \$0.4985 which is effectively a 7.08 percent increase in the tax rate."

The state statute actually requires that this statement apply to the Maintenance and Operations of the rate which is \$0.446 as compared with the No-New-Revenue rate for M&O of \$0.413058.





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- B. Section 26.05(b) of the State Tax Code also provides that such a motion to adopt a tax rate that exceeds the effective rate be adopted by 60 percent of the members of the City Council. **This means that five of the seven members of City Council must vote for passage of the tax rate in order for it to pass.**
- C. Specific language is included in the tax rate ordinance itself as required by State law (see sections 6 and 7):

SECTION 6. “THIS TAX RATE WILL RAISE MORE TAXES FOR MAINTENANCE AND OPERATIONS THAN LAST YEAR’S TAX RATE.”

SECTION 7. “THE TAX RATE WILL EFFECTIVELY BE RAISED BY 7.08 PERCENT AND WILL DECREASE TAXES FOR MAINTENANCE AND OPERATIONS ON A \$100,000 HOME BY APPROXIMATELY \$20.”

- D. Specific language should be included in the tax rate ordinance requiring the City Manager to post the language shown in Section 6 and 7 of the ordinance on the City’s webpage.

THE CITY OF GALVESTON, TEXAS, ADOPTED A TAX RATE THAT WILL INCREASE TAXES FOR MAINTENANCE AND OPERATIONS FOR TAX YEAR 2020. THE TAX RATE WILL EFFECTIVELY BE RAISED BY 7.08 PERCENT AND WILL DECREASE TAXES FOR MAINTENANCE AND OPERATIONS ON A \$100,000 BY APPROXIMATELY \$61.

Like the previous sections, this language is actually using just the M&O portion of the tax rate as the basis for calculation.

- E. As of the timing of this vote on September 9th, the Property Tax Code’s requirements for public notices, public hearings, and certification of the tax roll and calculation of the No New Revenue and Voter Approval rates by the Galveston County Tax Assessor Collector have been met.

III. Issues

- A. State law calls for the final tax rate for 2021 to be adopted by City Council no more than seven days after the completion of the public hearing. If it is not adopted, State law calls for the council to ratify the No New Revenue tax rate (\$0.465558) or last year’s rate (\$0.56), whichever is less. In this case, that would be the No New Revenue tax rate for 2021.





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- B. The City affirmed its existing property tax exemptions in May, 2020, which when combined with the previously adopted tax freeze and state required exemptions for veterans, abate a total of \$4.46 million in property taxes this tax year. See below.

Description	Tax Exemption Basis	Exemption Calculation	Number of Exemptions from Tax Year 2021 Preliminary Roll	Value Exempted from Tax Year 2021 Preliminary Roll	Estimated Tax Break at \$0.498500 Rate	Estimated Tax Break per Exemption
Homestead	20% of Assessed Value or minimum of \$5,000 of Assessed Value	COG at max for % but not minimum amount.	9,662	\$482,359,996	\$2,404,565	\$249
Over 65 Exemption	\$15,000 off Assessed Value	COG at minimum; can be increased	4,788	\$70,427,195	\$351,080	\$73
Disabled Exemption	\$10,000 off Assessed Value	COG at minimum; can be increased	468	\$4,475,000	\$22,308	\$48
Veteran's Exemption	\$5,000 (10%-30%), \$7,500 (30%-50%), \$10,000 (50%-70%), or \$12,000 (70% and over) off Assessed Value based on Disability Rating percentages noted above	COG at what's allowed by State law; no local option to increase exempted amounts	327	\$30,955,089	\$154,311	\$472
Veteran's Survivors Exemption	100% Exempt	State Mandated	21	\$1,669,221	\$8,321	\$396
Over 65 Freeze	N/A	Taxes paid frozen at amount paid at age 65	4,323	\$274,423,270	\$1,368,000	\$316
Disabled Freeze	N/A	Taxes paid frozen at amount paid once disabled	464	\$30,090,271	\$150,000	\$323
			20,053	\$894,400,042	\$4,458,584	\$222

- C. The Galveston County Appraisal District and the Galveston County Tax Assessor Collector place the taxable value of an average homestead single family home in 2021 at \$202,019 as compared with last year's \$182,902. At last year's tax rate (\$0.56), city taxes on the average homestead totaled \$1,024.25. At this year's proposed tax rate (\$0.56), city taxes would be \$17.19 less, or \$1,007.06, a 1.68 percent decrease. For the average non-homestead single family property, taxable value went from 256,698 to \$331,623, a 29.2 percent increase. Taxes on the average non-homestead property went from \$1,438 to \$1,653, a 15 percent increase.
- D. Owners of other major categories of property who received large percent increases in market value included multifamily properties (up \$144 million or 33.3 percent), commercial real property owners (up \$325 million or 40.5 percent) and vacant lots/land tracts (up \$57.4 million or 21.1 percent). These owners will find their tax bills still increasing, but to a lesser extent because of the 11 percent decrease in the tax rate from \$0.56 to \$0.4985.
- E. The official certified roll and associated tax rate calculations do not include the entire roll, leaving out frozen accounts, TIRZ values and new construction. However, owners of these properties will





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pay taxes that must be anticipated in the Budget. On this basis, taxable property value is 20.3 percent higher than last year (see below).

**THE INCREASE IN TAXABLE VALUE
 ESTIMATED BY CATEGORY
 (Source: City of Galveston Finance Department)**

Description	Taxable Value	Percent Chg.
2020 Tax Roll Total	\$7,255,400,000	
2021 Tax Roll Total (Estimated)	\$8,728,600,000	
Increase over Last Year	\$1,473,200,000	20.30%
Allowable Growth in Value over 2020	\$253,940,000	3.50%
Value Lost to Cap (Rate Reduction of 6.15 cents)	\$796,800,000	10.98%
New Construction in 2021	\$141,900,000	1.96%
Growth in Freeze Account Values	\$88,940,000	1.23%
Change in Sales Tax Adjustment	\$36,300,000	0.50%
Unused Incremental Rate (\$0.003121)	\$54,600,000	0.75%
Growth in TIRZ Value	\$23,200,000	0.32%
Net Other Adjustments	\$77,520,000	1.06%
Total	\$1,473,200,000	20.30%

- F. The calculation of the tax rate under State law produces the No-New-Revenue tax rate and the Voter Approval Rate. Once the M&O rate is calculated, it is then segmented into two pieces: The General Fund rate and the Library Rate. Note that the entire reduction in the total M&O rate is 6.15 cents and that is taken from the General Fund share of the M&O rate in its entirety of 6.15 cents. (See highlighted cells.) This is because of the City Charter requirement that the Library property tax allocation be based on a minimum of five cents.

**City of Galveston Tax Rates
 Comparing Last Year with This Year**

Rate Category	FY 2021 Actual	FY 2022	Amount Change	Percent Change
Total Proposed Property Tax Rate	\$0.560000	\$0.498500	-\$0.061500	-10.98%
Debt Rate	\$0.052500	\$0.052500	\$0.000000	0.00%
M&O Rate	\$0.507500	\$0.446000	-\$0.061500	-12.12%
General Fund share of M&O Rate	\$0.457500	\$0.396000	-\$0.061500	-13.44%
Library share of M&O Rate	\$0.050000	\$0.050000	\$0.000000	0.00%
No-New-Revenue tax rate	\$0.535631	\$0.465558	-\$0.070073	-13.08%
No-New-Revenue maintenance and operations tax rate	\$0.483131	\$0.413058	-\$0.070073	-14.50%
Voter Approval Rate	\$0.563158	\$0.498537	-\$0.064621	-11.47%

- G. The combined effect of the State law and the City Charter on the Budget is shown below.

**PROPERTY TAX REVENUE GROWTH
 PROPOSED FY 2022 BUDGET
 Net of Tax Rebates to TIRZ 13 and MUD 30**

By Fund	FY 2021 Estimate	FY 2022 Proposed	Amount of Increase	Percent Increase Over FY 2021
General Fund Operations	\$31,668,800	\$32,734,000	\$1,065,200	3.36%
Rosenberg Library	\$3,444,100	\$4,114,400	\$670,300	19.46%
Debt Service Fund	\$3,617,400	\$4,317,600	\$700,200	19.36%
Total	\$38,730,300	\$41,166,000	\$2,435,700	6.29%

Note that the Rosenberg Library receives its allocation of five cents of the City's maintenance and operations rate. This means that the entirety of any reduction in the overall M&O rate, such as this year's 6.15 cents, comes from the City's General Fund. This year that is a 13.44 percent cut,





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while the Library receives a 19.46 percent increase in its revenues from last year. Approval of the property tax rate in the budget cannot change this distribution.

H. A rate higher than \$0.4985 cannot be adopted because such a rate was not proposed and advertised for prior consideration by the community according to State law.

I. Should City Council wish to adopt a lower rate, such as the No-New-Revenue Rate of \$0.465558, the resulting impact on the Budget would be as follows:

FY 2022 PROPERTY TAX REVENUE ESTIMATED USING THE NO-NEW-REVENUE TAX RATE

By Fund	FY 2021 Estimate	FY 2022 Proposed Rate of \$0.4985	FY 2022 under NNR Rate of \$0.465558	Amount of Change
General Fund Operations	\$31,473,000	\$32,734,000	\$30,205,900	(\$2,528,100)
Debt Service Fund	\$3,587,000	\$4,317,600	\$4,339,300	\$21,700
Rosenberg Library	\$3,418,000	\$4,114,400	\$4,135,000	\$20,600
Total	\$38,478,000	\$41,166,000	\$38,680,200	(\$2,485,800)

The Budget and the property tax rate are, by State law, intended to correspond to each other. The Budget should provide the operating plan that supports the tax rate. Likewise, the tax rate should be set so as to finance the budget that is adopted prior to the vote on the rate itself. Therefore, State law calls for any change in the rate from the recommended \$0.4985 to be preceded by amendments to the Budget itself that are approved prior to consideration of the tax rate.

IV. Recommendation

Adopt the proposed property tax rate of \$0.4985 per \$100 of taxable value with the following motion spelled out in Section 26.05(b) of the State Tax Code:

"I move that the property tax rate be increased by the adoption of a tax rate of \$0.4985, which is effectively a 7.08 percent increase in the tax rate."

Five votes of City Council (sixty percent of the members) are required for passage according to Section 26.05 of the State Tax Code.

