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# Legislation Text

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Discussion of issues relating to the Fiscal Year 2019-2020 budget calendar and impact of S.B. 2.

Summary:

The current fiscal year began on October 1, 2019 and ends on September 30, 2020. The 2020-2021 fiscal year will begin on October 1, 2020. The process for developing a proposed FY 2020-2021 Budget will begin on March 23, 2020 with a Staff Budget Kick-off meeting.

Attached is the proposed FY 2020-2021 Budget calendar. This calendar includes budget related workshops, meetings and hearings for the City staff, City Council, the CCPD Board, the FCPEMSD Board and the Deer Park Community Development Corporation Board. The schedule was designed to meet the requirements of applicable State statutes as well as the City Charter. The meeting dates involving the City Council are highlighted in yellow.

Some considerations for the upcoming budget year include:

During their most recent session (86th Legislature, 2019), the Texas Legislature passed S.B. 2, also known as the Texas Property Tax Reform and Transparency Act of 2019. That bill became effective January 1, 2020. The bill does not impact the current fiscal year 2019-20 tax process; however, it will affect fiscal year 2020-2021.

Prior to S.B. 2, a city's rollback rate is the rate necessary to raise precisely eight percent more maintenance and operations tax revenue as the year before after taking into account appraisal fluctuations. The debt service component of the tax rate is then added to the product of the effective maintenance and operations rate and 1.08. In addition to changing the terminology from "rollback rate" "to "voter-approval rate," S.B. 2 lowers the multiplier used in the rate calculation from 8 percent to 3.5 percent.  Also, S.B. 2 also requires a city to hold an automatic election (i.e., the bill eliminates the petition requirement) on the November uniform election date if it adopts a rate exceeding the 3.5 percent voter-approval rate.

While S.B. 2 did not impact services this fiscal year, had the legislation been applied to the current year's property tax rates, it would have resulted in a loss of $669,512 in maintenance and operations as well as $412,153 in industrial district revenue. Together, the total loss in these significant revenue sources supporting the General Fund would have been $1,081,655.

Some anticipated affects and policy considerations during the budget process include:

Reduced flexibility of General Fund reserves, which will also be impacted by changes in franchise fees and are always subject to changes in sales tax revenue that can swing up or down month-to-month and/or year-to-year.

The City should evaluate its cost recovery targets, which requires a serious look at user fees.

Operating cost containment means paying attention to any programs or additions that result in ongoing increases in future budgets, the most obvious being the addition of staff.

The City will likely see a limitation in pay-as-you-go (cash) funding for capital projects as the impact of reduced revenues lowers the available fund balance for transfer to the CIP. In the last four years, (transfers approved in FY 15-16 through FY18-19), the City has added almost $16 million to the CIP to cash fund projects and capital equipment.

IDA revenues continue to decline and as the industrial facilities age and new construction is not added, values will continue to decline. Some good news for the next budget year is that the price of oil, which affects inventory values, was higher on 1/1/20 than it has been the last year. However, the City has no control over inventory levels and these can fluctuate year-to-year.

The City is fortunate to have an AAA-rating which reduces the cost of borrowing. It is unknown at this time how bond raters will react to S.B. 2 in general and specific to the City of Deer Park.

Budgeting for the three major sources of revenue in the General Fund will be a formidable challenge in this next budget process. Legislative decisions will limit property tax revenues and franchise fees. Sales taxes, while trending higher, are never a “given”. Together, these three sources of revenue account for 80% of the General Fund revenue and must be evaluated more critically going forward.

Fiscal/Budgetary Impact:

N/A

Discussion only.