Truth-in-Taxation
New Tax Rate Limits

For years, Texas property owners have looked to the property appraisal process to seek relief on their property tax bills while ignoring the budget and rate setting process. Senate Bill 2 (SB 2) tackles the problem of growing property taxes by limiting the amount taxing unit may raise before voters weigh in.

If the Governor or President of the United States declares a disaster area that includes a taxing unit, the taxing unit may calculate the voter-approval tax rate in the manner provided for a special taxing unit.

THINGS TO KNOW

- **New Tax Limitations:** Cities, counties, and special districts are subject to new limits on the amount of property tax revenue they may raise.

- **Large Jurisdictions:** Most large taxing units that attempt to raise property tax revenue by more than 3.5% will now trigger an automatic voter election to seek approval.

- **Small Jurisdictions:** Smaller taxing units have more flexibility with their budgets. If the proposed rate increase generates less than $500,000 in new revenue voters will still have to petition for an election to reduce the proposed rate.

Effective in 2020, most cities, counties, and special districts may not raise more than the higher of 3.5% more revenue (Voter-Approval Tax Rate[1]) or $500,000 (De minimis Rate) without triggering an automatic tax rate election.

There are certain exceptions to the new rules. Special taxing units including hospital districts, junior college districts, and taxing units with tax rates below 2.5 cents per $100 of value remain subject to an 8% threshold, and exceeding the threshold triggers an automatic election. Further, school district tax rates are set under an entirely different process. *(See TTARA's Research Brief: School District Tax Rate Compression and Tax Ratification Elections)*

It is important to note the rate threshold applies only to the overall taxes that a taxing unit can levy. The thresholds are not limits on an individual property owner's tax bill, which may increase more or less depending on changes in the relative value of their properties and which rate thresholds apply to the taxing units on their bill.

Though Senate Bill 2 has placed new limitations on taxing units, it is not a substitute for active awareness and involvement by the taxpayer during the budget and rate setting process.

New TNT Voter-Approval Tax Rate Rules

General Rule: A new 3.5% allowed revenue increase by the voter-approval tax rate applies to all taxing units except school districts, special taxing units, and taxing units subject to the de minimis rate. The voter-approval tax rate is calculated by multiplying the no-new-revenue M&O rate[2] by 1.035 (3.5% additional property tax revenue[3]) plus the current debt rate plus the unused increment rate.[4] If a taxing unit's proposed tax rate is greater than the voter-approval tax rate and raises more than $500,000 an automatic election is ***triggered***. A vote "yes" ***approves*** the proposed tax rate and a failed election reduces the tax rate to no more than the voter-approval tax rate.

De Minimis Rate Rule: A provision creating the de minimis rate allows certain smaller jurisdictions to raise up to $500,00 in new revenue before triggering an automatic election.[5] Voters can still act to limit the increase, though. If the proposed tax rate is less than the de minimis rate, but higher than the voter-approval tax rate, voters can petition for a tax rate election.

Figure 1 illustrates how the new tax rate calculations work for most taxing units. The unit first calculates the "no-new-revenue" tax rate – the rate, when applied to this year's value that would raise the same amount of revenue for maintenance and operations (M&O) as last year. The "voter-approval" tax rate is calculated by adding 3.5% to the "no-new-revenue" tax rate, plus the tax rate needed to meet debt service obligations, plus any unused tax rate increment from prior years.

The jurisdiction also calculates the "de minimis" tax

TNT: New Tax Rate Limits

Figure 1
Calculating the Basic Tax Rates

Current Year Taxable Value	$	1,000,000
Prior Year M&O Levy	$	5,000
No-New-Revenue M&O Tax Rate (per $100)	$	0.500
Voter-Approval Tax Rate Calculation		
No-New-Revenue M&O Tax Rate * 1.035	$	0.5175
Plus: Current Year Debt Rate	$	0.2500
Plus: Unused Increment Rate	$	-
Equals: Voter-Approval Tax Rate	$	0.7675
De Minimis Tax Rate Calculation		
De Minimis Revenue Threshold	$	500
Plus: Prior Year M&O Levy	$	5,000
Allowable De Minimis Tax Levy	$	5,500
De Minimis M&O Tax Rate	$	0.5500
Plus: Current Year Debt Rate	$	0.2500
Equals: De Minimis Tax Rate	$	0.8000

rate—the rate that would allow the district to raise $500,000 in new revenue for maintenance and operations, plus meet debt service needs.

If the jurisdiction adopts a tax rate higher than the de minimis rate ($0.8000 in this example), an automatic election is triggered. If voters do not affirmatively approve the higher tax rate, the rate imposed is the "voter-approval" tax rate of $0.7675.

If the jurisdiction adopts a tax rate lower than the "de minimis" rate, but higher than the "voter-approval" tax rate, residents can submit a petition with the signatures of 3% of the jurisdiction's registered voters triggering a tax rate election. If voters affirmatively reject the higher tax rate, the new rate is the "voter-approval" tax rate of $0.7675.

If the jurisdiction proposes a tax rate below both the "de minimis" rate and the "voter-approval" tax rate, voters may still offer their thoughts by contacting the governing board members and participating in the rate adoption process.

"Special Taxing Units" Rule: Special Taxing Units are Junior Colleges, Hospital Districts, and districts with an M&O rate of less than 2.5 cents. If the proposed tax rate raises more than <u>8%</u> additional "new" revenue (voter-approval tax rate) an automatic election is triggered. A vote "yes" approves the proposed tax rate and a failed election reduces the rate to no more than the voter-approval tax rate.

Election Matrix: Figure 2 highlights the election provisions of the $500,000 de minimis limitation within the taxing units.

Figure 2
Voter-Approval Election Matrix

	Cities < 30,000 Population	Cities >30,000 Population	All Counties	Special Taxing Units	All Other Special Districts
General Rule					
Voter-Approval Rate	3.5%	3.5%	3.5%	8%	3.5%
Election Provision	Automatic Election	Automatic Election	Automatic Election	Automatic Election	Automatic Election
Ballot Language	"Yes" approves the tax rate	"Yes" approves the tax rate	"Yes" approves the tax rate	"Yes" approves the tax rate	"Yes" approves the tax rate
Election Result to Lower Rate	Fails	Fails	Fails	Fails	Fails
Resulting Tax Rate	Voter-Approval Tax Rate @3.5%	Voter-Approval Tax Rate @3.5%	Voter-Approval Tax Rate @3.5%	Voter-Approval Tax Rate @ 8%	Voter-Approval Tax Rate @3.5%
De minimis Rule raising < $500,000					
Voter-Approval Rate	3.5%	n/a	3.5%	n/a	3.5%
Election Provision	Petition Required	n/a	Petition Required	n/a	Petition Required
Ballot Language	"Yes" reduces the tax Rate	n/a	"Yes" reduces the tax Rate	n/a	"Yes" reduces the tax Rate
Election Result to Lower Rate	Successful	n/a	Successful	n/a	Successful
Resulting Tax Rate	Voter-Approval Tax Rate @3.5%	n/a	Voter-Approval Tax Rate @3.5%	n/a	Voter-Approval Tax Rate @3.5%

[1] Voter-Approval Tax Rate—Replaced the Rollback Tax Rate (RTR)

[2] No-New-Revenue Tax Rate—Replaced Effective Tax Rate (ETR)

[3] "New Property Tax Revenue" is revenue raised from property that is on the current and prior year rolls. Taxes on newly constructed or annexed property are not subject to the calculations.

[4] Unused Tax Increment Rate is the excess difference between the adopted tax rate and the voter-approval tax rates for the last 3 years.

[5] Special taxing units or cities with a population of more than 30,000 are excluded from the de minimis provision.