



Local Gov't Budgeting and Tax Rate Setting Process Overview

July 23, 2020

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Webinar Topics

- Budget Adoption Process
- Rate Calculation and Adoption Process
- Why is Participation Important?
- Feedback through Real-Time Polling
- Fill Your TOOLBOX!!!



Mindset Change

- Do **NOT** think in terms of **Value** determines tax
- Do **NOT** think in terms of **Tax Rate** determines tax
- **DO** think in terms of **Taxing Unit Budget** determines tax

Budget Adoption Process



Budget Adoption Process

- Local Government Code
 - Cities and Municipalities – Chapter 102
 - Counties – Chapter 111
- Special Districts – Information by individual district in Special District Local Laws Code
 - Due to time constraints, Special Districts will not be discussed
- School Districts – See Sheryl Pace’s June 10th Webcast *“An Overview of the Texas School Finance System”*

City Budget Requirements

- Mayor serves as Budget Officer – City Manager in those cities that have one
- Annual budget adopted prior to start of fiscal year – October 1 for most
- Must contain complete financial statement showing:
 - Outstanding obligations
 - Cash on hand to the credit of each fund
 - Funds received in previous year
 - Funds available next year
 - Estimated revenue and tax needs

City Budget Requirements

- Proposed budget filed with municipal clerk for public inspection
 - Minimum 30 days prior to tax rate adoption
 - Posted on city website
- If property tax revenue increases, cover page must show:
 - Dollar and percentage amount of increase
 - Estimated dollar amount of revenue from new property added to tax roll
- Public hearing required
 - At least 15 days after budget filed
 - Public notice with date, time, location and proposed property tax increase if any
 - No less than 10 not more than 30 days before hearing

City Budget Requirements

- Adoption by record vote of governing body after conclusion of public hearing
- If more property tax revenue, separate votes on revenue increase required
- Cover page with property tax information and record vote of each member of governing body
- Filed with clerk and posted on website



County Budget Laws

Local Gov't Code Chapter 111

- Subchapter A – **225,000 or less** population
 - 233 Counties
- Subchapter B – **more than 225,000** population
 - 21 Counties
- Subchapter C – **more than 125,000** and **choose** to operate under this subchapter
 - 31 Counties eligible

County Budget Requirements

- Annual budget required – no expenditures without
- Budget officer
 - SubCh. A – County Judge
 - SubCh. B – County Auditor
 - SubCh. C – Court may appoint budget officer
- Proposed budget preparation
 - SubCh. A – 7th or 10th month of FY as determined by Comm. Court
 - SubCh. B – 30 days before or immediately after 1st day of FY
 - SubCh. C – No deadline specified

County Budget Requirements

- Attached financial statement includes:
 - Outstanding obligations
 - Cash on hand in each fund
 - Funds received prior year and available next year from all sources
 - Estimated revenues
 - Estimated taxes to fund proposed budget
- Property tax increase cover page statement (SubCh. A&B)
 - Amount and percent of increase
 - Amount raised on new property added to tax roll
- Filed for public inspection
 - SubCh. A&B – county clerk and website
 - SubCh. C – county clerk and auditor

County Budget Requirements

- Public hearing required
 - SubCh. A – After 15th of month following month prepared but before taxes levied
 - SubCh. B&C – Within 10 days of filing but before end of 1st month of FY
- Public notice 10 to 30 days before hearing
- Adopted at hearing conclusion
 - SubCh. A&B – If more property tax revenue, separate votes on revenue increase required

County Budget Requirements

- Property tax information cover page
 - Amount and percent increase or decrease – no change statement
 - Record vote of each court member
 - Previous and current year adopted, no-new-revenue, no-new-revenue M&O, voter-approval and debt rates
 - Debt obligations
- Filed
 - SubCh. A – county clerk and website
 - SubCh. B&C – county clerk, auditor and website
- More detailed matrix will be attached to playback on TTARA Website



Budget Example

- First Page of Budget

This budget will raise more revenue from property taxes than last year's budget by an amount of \$64,091,204, which is a 9.5 percent increase from last year's budget. The property tax revenue to be raised from new property added to the tax roll this year is \$15,097,747.

District 2 Mayor Pro Tem Delia Garza
District 3 Council Member Sabino Renteria
District 4 Council Member Gregorio Casar
District 5 Council Member Ann Kitchen

CITY OF AUSTIN PROPERTY TAX RATES

Fiscal Year	2018-19	2019-20
Property Tax Rate	0.4403	0.4431
Effective Tax Rate	0.4137	0.4140
Effective M&O Tax Rate	0.3137	0.3090
Rollback Tax Rate	0.4482	0.4431
Debt Rate	0.1095	0.1094



Rate Adoption Process

Rate Adoption Process

- Three major components of property tax system – appraisal, assessment and collection
- Assessment encompasses tax rate adoption and tax bill calculation
- Truth in Taxation Laws
 - Notice of revaluation and protest process
 - Notice of proposed tax increase
 - Opportunity for public comment and limitation
- Texas Constitution, Art. VIII, Sec. 21 – Property Tax Code, Chapter 26

2 Key Deadlines Linking Appraisal Process to Rate Adoption

1. **July 20** – ARB approves appraisal records
 - May be extended to **August 30** in counties over 1 million population (Harris, Dallas, Tarrant, Bexar, Travis, Collin)
 - ARB may not approve appraisal records if 5% of appraisal roll remains under protest – 10% for counties of 1 million+
2. **July 25** – Chief Appraiser certifies estimated value
 - If no ARB approval by July 20 Chief Appraiser must prepare and certify an **estimate** of taxing unit taxable value

The Tax Equation – Taxpayer Perspective

Value **x** Tax Rate = Tax



- Value determines your **SLICE** of Tax Pie
- Tax Rate determines **SIZE** of Tax Pie
- Rates should have **INVERSE** relationship to Value

Value  = Rates 

The Tax Equation – Taxing Unit Perspective

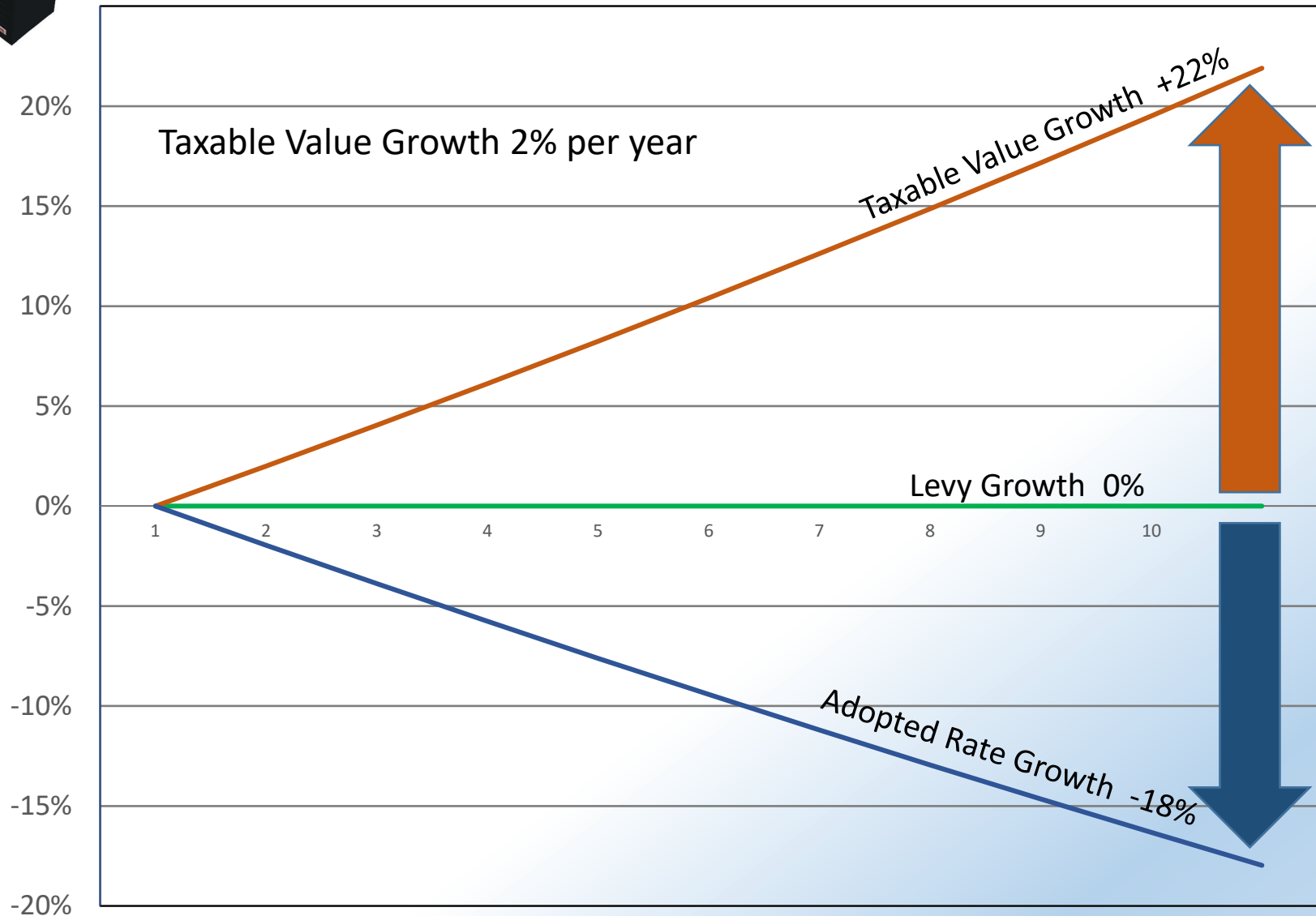
$$\text{Tax Rate} = \text{Levy} / \text{Tax Roll}$$



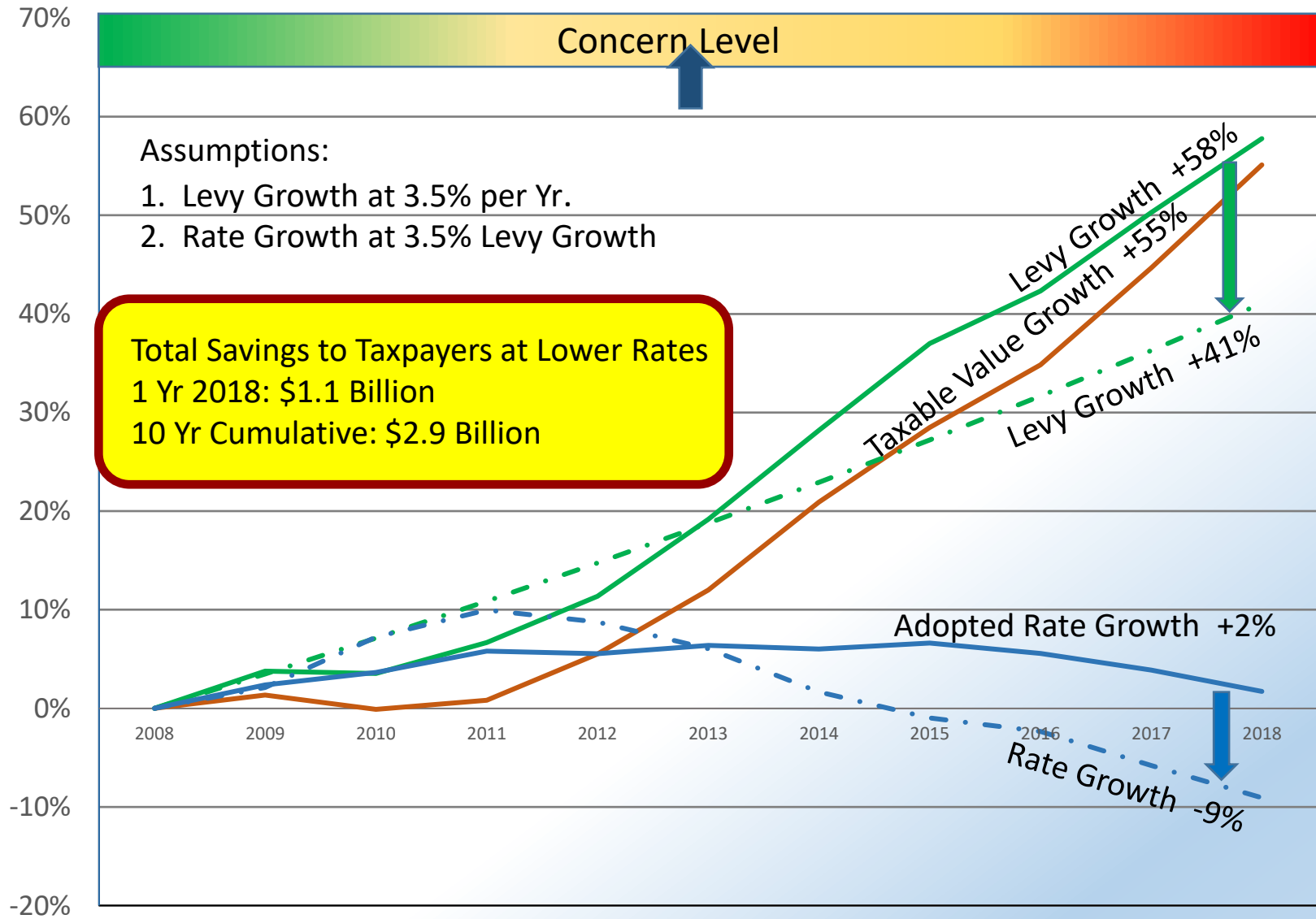
- Levy – Revenue needed to fund budget
- Revenue – amount determined as discussed during budget adoption process
 - Does not mean it's set in stone



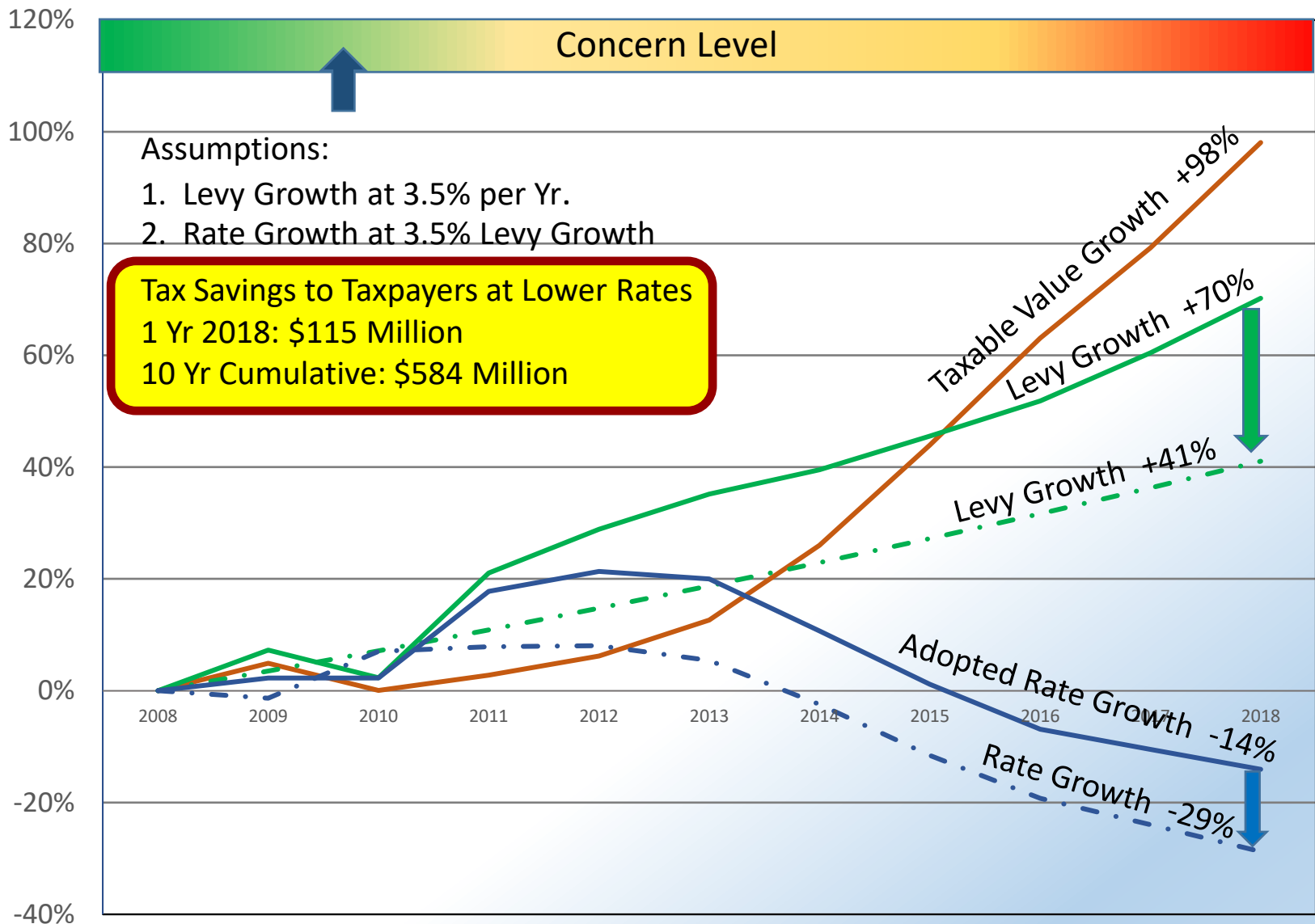
Inverse Relationship



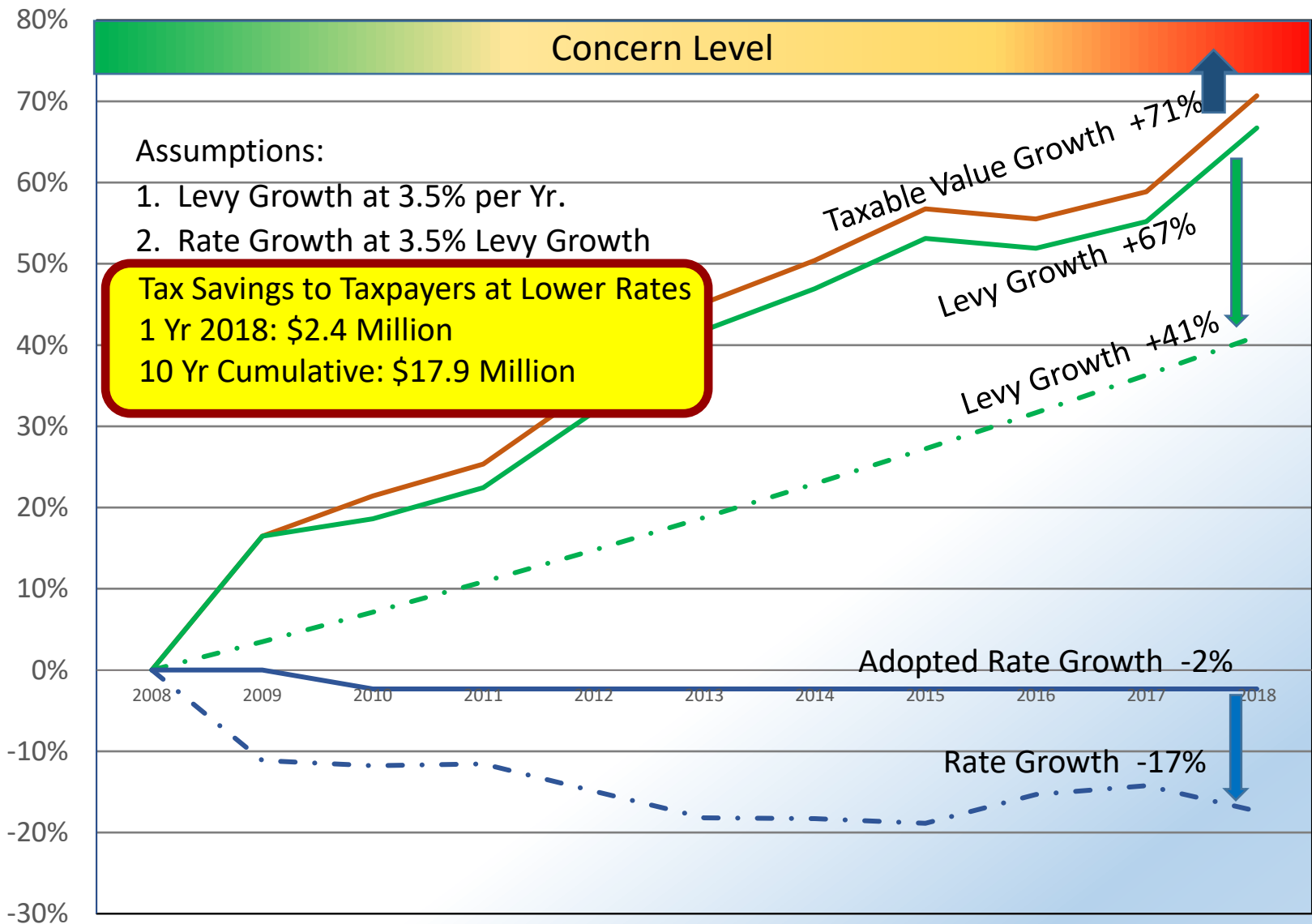
State Avg. 10 Year County Growth Rates



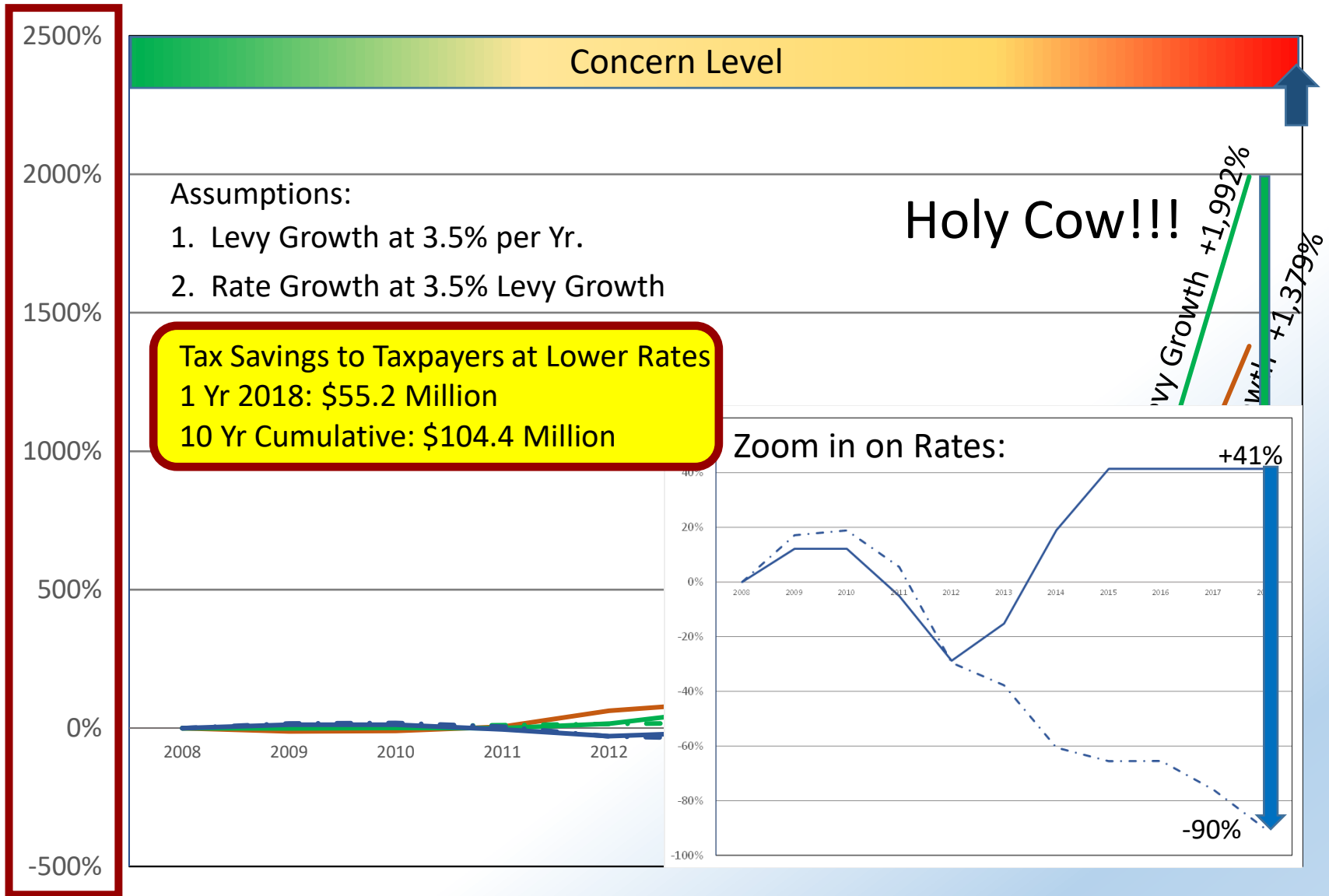
Ex. #1 - 10 Year County Growth Rates



Ex. #2 - 10 Year County Growth Rates



Ex. #3 - 10 Year County Growth Rates



Senate Bill 2 – Rate Calculation Changes

- **No-New-Revenue Tax Rate** – Replaces “effective tax rate”
- **Voter-Approval Tax Rate** – Replaces “rollback tax rate”
- **De minimis Rate** – Equals sum of (1) no-new-revenue M&O rate; (2) rate that yields \$500,000; and (3) current debt rate
 - See April TTARA Brief “TNT-New Rate Limits” for De minimis Rate explanation
- **Unused Increment Rate** - Difference between actual and voter-approval rates for previous 3 years
 - Effective year following SB2 implementation
- **Lowered** Voter-Approval *revenue* increase from 8% to 3.5% except for “special taxing units” – junior colleges, hospitals and special purpose districts with 2.5¢ or less M&O tax rate
- **Allowed** 8% *revenue* increase in disaster area and for special taxing units
- **Mandated** use of Comptroller’s Tax Rate Calculation Form as of January 1, 2021
- **Created** Real-time Tax Notice

Tax Rates Based on Budget

- Maintenance & Operations (M&O)
 - Funds general operations
- Interest & Sinking (I&S)
 - Pays debt service obligations
 - Covers both voter-approved and non-voter-approved debt such as Certificates of Obligation

No-New-Revenue Tax Rate

- What is it?
 - Previously known as effective tax rate
 - Rate that will generate the previous year's revenue when applied to current values of properties on last year's tax roll
- How is it calculated?
 - NO-NEW-REVENUE TAX RATE = (LAST YEAR 'S LEVY – LOST PROPERTY LEVY) / (CURRENT TOTAL VALUE - NEW PROPERTY VALUE)
 - Numerous adjustments made within the calculation to get revenue and value on equal footing with previous year
 - ✓ Key adjustment – Exclusion of current year new value

Voter-Approval Tax Rate

- What is it?
 - Previously known as rollback tax rate
 - Rate that triggers an automatic ratification election to obtain voter permission to exceed voter-approval rate
- How is it calculated?
 - $\text{VOTER-APPROVAL TAX RATE} = (\text{NO-NEW-REVENUE MAINTENANCE AND OPERATIONS RATE} \times 1.035) + (\text{CURRENT DEBT RATE} + \text{UNUSED INCREMENT RATE})$
 - Baseline is the No-New-Revenue Tax Rate
 - Certain special districts use 8% in place of 3.5% revenue increase
 - Debt rate excluded from revenue limitation because must be paid regardless of value total
 - Unused Increment Rate – Difference between actual tax rate and voter-approval rate for previous 3 years
 - ✓ Designed to give taxing units a safety net if needed to address additional future spending needs
 - De minimis Rate revenue increase threshold – \$500,000

Voter-Approval Tax Rate – Disaster Area

- Taxing units in declared disaster area may calculate voter-approval tax rate to allow 8% revenue increase
- Tax Code 26.04 (c-1)
 - “Notwithstanding any other provision of this section, the governing body of a taxing unit other than a special taxing unit may direct the designated officer or employee to calculate the voter-approval tax rate of the taxing unit in the manner provided for a special taxing unit if any part of the taxing unit is located in an area declared a disaster area during the current tax year by the governor or by the president of the United States.”
- Effective until the earlier of:
 - Second year after total tax roll value exceeds tax roll value in disaster year; or
 - Third year after tax year when disaster occurred



Comptroller Rate Calc. Form

- Form 50-856

2020 Tax Rate Calculation Worksheet

Form 50-856

Taxing Units Other Than School Districts or Water Districts

- How may form be obtained?
 - Chief appraiser – available 3rd day after taxing unit submission
 - Appendix to budget
 - Contact designated officer or employee – most will gladly provide
 - Open records request as provided under Texas Public Information Act – Government Code, Chapter 552

	ings (will deduct in Line 2) and the captured value for tax increment financing (will deduct taxes in Line 17). ¹	\$ _____
2.	2019 tax ceilings. Counties, cities and junior college districts. Enter 2019 total taxable value of homesteads with tax ceilings. These include the homesteads of homeowners age 65 or older or disabled. Other taxing units enter 0. If your taxing unit adopted the tax ceiling provision in 2019 or a prior year for homeowners age 65 or older or disabled, use this step. ²	\$ _____

Comptroller Rate Calculation Form

- Key Elements of the No-New-Revenue Calculation

2020 Tax Rate Calculation Worksheet

Form 50-856

Taxing Units Other Than School Districts or Water Districts

1. 2019 total taxable value. Enter the amount of 2019 taxable value on the 2019 tax roll today. Include any adjustments since last year's certification; exclude Tax Code Section 201.001(b) property subject to an appeal under Chapter 201.002(b) and property subject to a tax ceiling (will decrease taxable value).

9. 2019 taxable value of property in territory the taxing unit deannexed after Jan. 1, 2019. Enter the 2019 value of property in deannexed territory.⁵

26. 2020 NNR tax rate. Divide Line 17 by Line 25 and multiply by \$100.²⁰

23. Total 2020 taxable value of new improvements and new personal property located in new improvements. New means the item was not on the appraisal roll in 2019. An improvement is a building, structure, fixture or fence erected on or affixed to land. New additions to existing improvements may be included if the appraised value can be determined. New personal property in a new improvement must have been brought into the taxing unit after Jan. 1, 2019 and be located in a new improvement. New improvements **do** include property on which a tax abatement agreement has expired for 2020.¹⁹

C. Pollution control and energy storage system exemption: Deduct the value of property exempted for the current tax year for the first time as pollution control or energy storage system property:..... - \$ _____

D. Tax increment financing: Deduct the 2020 captured appraised value of property taxable by a taxing unit in a tax increment financing zone for which the 2020 taxes will be deposited into the tax increment fund. Do not include any new property value that will be included in Line 23 below.¹² - \$ _____

E. Total 2020 value. Add A and B, then subtract C and D.

Comptroller Rate Calculation Form

- Key Elements of the Voter-Approval Rate Calculation

2020 Tax Rate Calculation Worksheet

Form 50-856

Taxing Units Other Than School Districts or Water Districts

Phone (area code and number)

29. **2019 taxable value, adjusted for actual and potential court-ordered adjustments.** Enter the amount in Line 8 of the *No-New-Revenue Tax*

43. **2020 anticipated collection rate from voters.** Enter the rate from the voter-approved budget that the rate will be set at for 2020. **47. 2020 voter-approval tax rate.** Add Lines 39 and 46. **46. 2020 debt rate.** Divide Line 44 by Line 43 and multiply by 100.

(3)

(4) are not classified in the taxing unit's budget as M&O expenses.

- or -

Taxing unit affected by disaster declaration. If the taxing unit is located in an area declared as disaster area, the governing body may direct the person calculating the voter-approval rate to calculate in the manner provided for a special taxing unit. The taxing unit shall continue to calculate the voter-approval rate in this manner until the earlier of 1) the second year in which total taxable value on the certified appraisal roll exceeds the total taxable value of the tax year in which the disaster occurred, and 2) the third tax year after the tax year in which the disaster occurred. If the taxing unit qualifies under this scenario, multiply Line 38 by 1.08. ²⁷

Comptroller Rate Calculation Form

- Use required in 2021
- Source of data?
 - Chief Appraiser's certified or estimated tax roll (July 25)
 - Tax roll submitted to governing body by assessor (Aug. 1) showing:
 - ✓ Total appraised, assessed, and taxable values
 - ✓ Total taxable value of new property
 - Tax collector's certified estimate of anticipated collection rate for I&S purposes and amount of any excess debt service collections in prior year (Aug. 1)

Comptroller Rate Calculation Form

- Who calculates tax rates?
 - Designated taxing unit officer or employee using approved form
 - Beginning 2021, tax roll values and rate calculation accuracy must be certified
 - By August 7, or as soon thereafter as practicable:
 - ✓ Form submitted to governing body
 - ✓ No-new-revenue and voter-approval tax rates, with calculation explanation, posted prominently on website as prescribed by Comptroller

Real-time Tax Notice

- Delivered by Chief Appraiser
 - Deadline – August 7 or as soon thereafter as practicable
 - Regular mail or email to each property owner
 - Directions to website database maintained by appraisal district showing information related to tax rate adoption
- Website information includes:
 - Property value
 - Each taxing unit's no-new-revenue, voter-approval, and proposed tax rates and taxes due at those rates
 - Link for electronic submission of comments/opinions
 - Date, time, and place of hearings
- Required this year in 24 counties over 200,000 population and next year in all counties

Taxing Unit Website Information

- Taxing unit and governing body contact information
- Budgets for preceding two years
- Current year proposed or adopted budget
- Amount and percentage change in current budget
- Budgeted M&O and I&S property taxes in current and preceding 2 years
- M&O and I&S tax rates for same 3 years
- Most recent financial audit



Real-time Tax Notice Website

TRAVIS COUNTY

Taxable Value \$92,070

No-New Revenue Rate	Proposed Rate	Difference	Voter-Approval Rate	Adopted Rate
0.332751 \$306.36	0.369293 \$340.01	\$33.65	0.369293 \$340.01	0.369293 \$340.01

Public Hearing on Property Tax Rate	2019-09-17 9:00:00 am	Commissioners Courtroom, 700 Lavaca Street, Austin, TX 78701
Public Hearing on Property Tax Rate	2019-09-20 9:00:00 am	Commissioners Courtroom, 700 Lavaca Street, Austin, TX 78701
Public Hearing on FY 2020 Proposed Budget	2019-09-24 9:00:00 am	Commissioners Courtroom, 700 Lavaca Street, Austin, TX 78701



Public Hearing on Tax Rate

- At least 5 days after notice of hearing
- Must be on weekday and not on public holiday
- Location within taxing unit boundary
- Provide adequate opportunity for all persons or entities to express views on proposed tax rate
- Governing body may adopt tax rate
 - If rate adoption exceeds no-new-revenue rate, then 60% of governing body must vote in favor to adopt
 - If vote not taken, announce date, time, and place of adoption

Tax Rate Adoption Deadline

- Governing body must act before the later of September 30 or 60th day after certified appraisal roll received
- If governing body plans to adopt rate exceeding voter-approval rate, must do so no later than 71st day before next uniform election date

Automatic Ratification Election

- Triggered If adopted rate is higher than voter-approval rate
- Held on November general election date
- Not required in year after disaster
- Not applicable to:
 - Cities less than 30,000 population
 - Special taxing units
- If election fails, Voter-Approval Rate adopted

Rate Reduction Election by Petition

- Applies to cities under 30,000 population and other taxing units except special taxing units if:
 - De minimis rate exceeds voter-approval rate, and
 - Adopted rate is equal to or greater than the higher of voter-approval rate or voter-approval rate calculated like that of a special taxing unit
- Petition signed by at least 3% of registered voters
- Submitted within 90 days of rate adoption
- Governing body has 20 days to determine validity
- Held on next uniform election date
- Corrected tax bills or tax refunds depending on election timing



Tax Rate Injunction

- Prohibits rate adoption and tax collections
- Issued if taxing unit, assessor or chief appraiser has not complied with rate computation, publication, or posting requirements
- Only defense for failure to comply is showing of good faith

Takeaways

- Revenue Increase = Tax Increase
- Do not ignore the other 50% of the tax equation
- Participate, Participate, Participate
 - Showing up is 90% of the battle!



Questions??

Thanks for Joining Us!

If you have any questions or comments, please feel free to contact TTARA staff.

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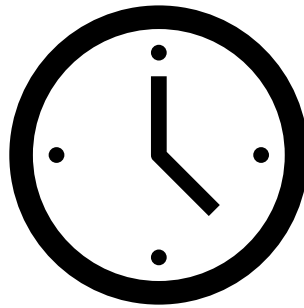
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