

Report on Interim Charge Number 1

to the
House Committee on County Affairs
77th Legislature

December 15, 2000

Interim Charge Number 1

(Issued January 2000)

Review the cost of statutory county duties, including federal mandates, and the ability of county tax bases and fees to support such duties.

Important Notes Regarding this Report

This is the final report following the issuance of a preliminary report earlier in the year. It is not intended as a comprehensive study of any of the matters requested in the Charge nor of any of the data presented.

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I. INTRODUCTION

The Interim Charge and the Texas Association of Counties. In January 2000, the County Affairs Committee of the Texas House of Representatives received an Interim Charge to “review the cost of statutory county duties, including federal mandates, and the ability of county tax bases and fees to support such duties.” The Committee requested assistance from the Texas Association of Counties (TAC)¹. TAC accepted and assigned the task to the County Information Project (CIP)² due to the CIP’s data resources and existing financial data collection program. A preliminary report addressing the Interim Charge was produced by the CIP in July, 2000 and delivered to the Committee. This final report adds new data and other related information not included in the preliminary report.

The County Information Project. The County Information Project was established on February 11, 1998, by the Board of Directors of the Texas Association of Counties to serve as a central source for county data. The CIP researches and locates sources of county-related data and provides that data in various forms to county officials, state and federal entities, and the general public. The CIP is involved with the development of Geographic Information Systems (GIS) and data at the State and county level and the utilization and promotion of other new and emerging technologies for county government, including telecommunications and connectivity.

The County Financial Data Collection Program. In spite of the existence of the various state and federal data, there is no single source of comprehensive county financial data. Although this data resides in each county, it is not maintained or collected in a way that makes it easy to locate, to compare county to county, or to analyze on a statewide basis.

After researching local government financial data collection programs of several states, the CIP discovered that every five years the Governments Division of the United States Census Bureau performs a "Survey of Local Government Finances" of all state and political subdivisions in the United States. Two years ago the CIP began working with the Bureau to develop a joint data collection program.

The CIP, with the assistance of several county official organizations³, the Comptroller of Public Accounts, and the Bureau, developed a financial data collection form for use in this joint Program. After receiving the Interim Charge in February of this year, the Financial Data Collection Advisory Group met to review, update, and modify the form to meet the needs of the Committee and accelerated the collection time schedule. The “Annual Fiscal Report for Counties”⁴ and “The Manual of Accounts for Texas Counties” are the result of this work. The form and Manual of Accounts are structured to follow, as closely as possible, nationally recognized government accounting and reporting standards⁵.

¹ The Texas Association of Counties is a non-profit association of county officials whose mission is to provide services to Texas counties and assistance to all county officials. Web page: <http://www.county.org>

² Web page: <http://www.county.org/cip>

³ Participants included The Texas Association of County Auditors, The Texas Association of County Treasurers, The Texas County Judges and Commissioners Association, and the Conference of Urban Counties.

⁴ See Exhibit 7 - Annual Fiscal Report for Counties and Exhibit 8 - Manual of Accounts.

⁵ The major account groups are those generally seen in a Government Accounting Standards Board (GASB)-compliant Comprehensive Annual Financial Report (CAFR). The minor account groups were created using “Government Accounting, Auditing, and Financial Reporting,” Government Finance Officers Association (Chicago 1994), the Georgia Uniform Chart of Accounts for Local Governments (http://www.dca.state.ga.us/surveys/uca/uca_intro.html), Office of Management and Budget Circular A-133 (<http://www.whitehouse.gov/OMB/circulars/a133/a133.html>), and other similar sources.

II. EXECUTIVE SUMMARY

General Summary. The CIP faced many difficulties in acquiring and compiling the information contained in this report. The most significant of which was the total lack of any comprehensive source of “apples-to-apples” financial data. Although the CIP intends to continue and refine its data collection efforts, this lack of reliable data will be a problem for the near future. The CIP also anticipates that the introduction of the GASB 34 reporting standard will further complicate attempts at uniform data collection as the accounting differences between GAAP compliant counties and non-compliant counties increases⁶.

The Ability-To-Pay section of this report identifies several difficulties in comparing county costs at a detail level based on the data reported to the CIP in the County Financial Survey. One difficulty noted is that counties report similar data in different areas of the financial survey or may be merging costs into other areas of the survey resulting in no data being reported where it would normally be expected.

Similarly, there is no definitive compilation of mandatory county duties – state or federal. The CIP attempted to assemble such a list (included as Exhibit 5 and 6), but despite our efforts, we feel certain that there are omissions. Even if a comprehensive list existed, the classification of a particular duty as mandatory or permissive is accompanied by its own set of problems.

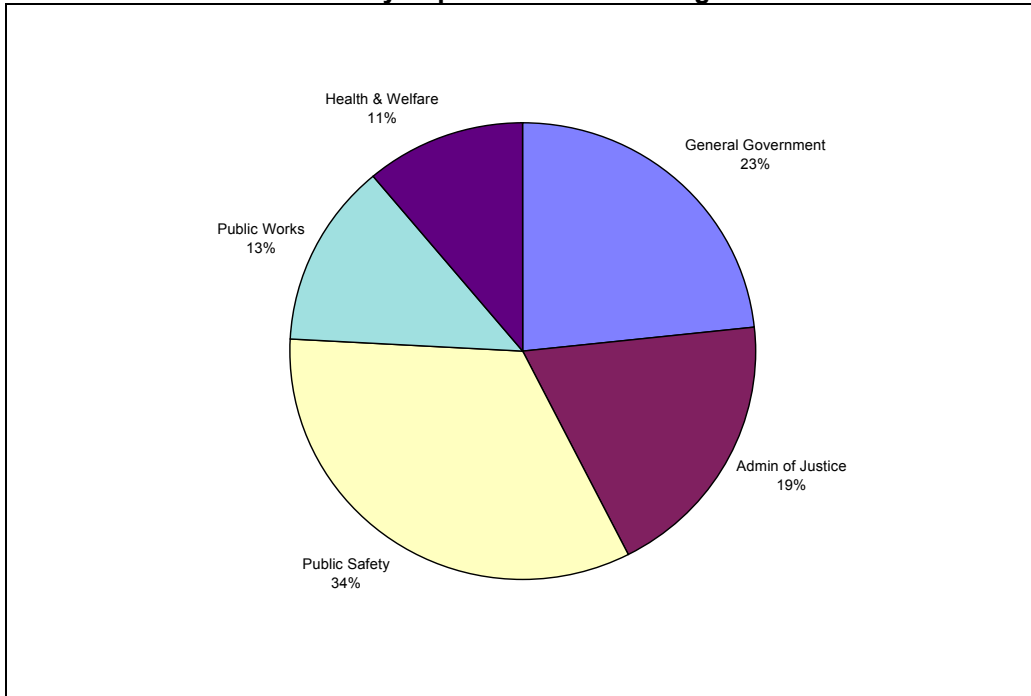
As to the costs of particular duties, counties do not generally allocate costs of functions within departments or between departments. It is, therefore, virtually impossible to assign discrete costs to individual duties. In addition, duties frequently cross several functional areas and programs making cost allocations especially difficult for counties with no cost accounting processes in place.

Finally, ability to pay is, to a large degree, subjective. For example, a county may have the capability to raise sufficient revenue to fully fund its functions, but be limited by local political situations, roll-back, and tax burdens imposed on the citizens by other taxing entities. The “ability to pay” analysis is particularly hampered by the lack of historical data that would allow identification of trends in county finances.

Cost of County Duties. Texas counties are the means by which the powers of the state are exerted at the local level. All of their powers and duties are governmental and fall within several major financial expenditure categories. This report focuses on five of these categories: General Government, Administration of Justice, Public Safety, Public Works, and Health & Welfare. Adding all expenditures within each of these categories for a group of 63 of the survey counties (see Exhibit 3 for a review of the use of survey data), the CIP prepared the following chart showing the percent of total summary expenditures by financial category:

⁶ The Governmental Accounting Standards Board (GASB) in June 1999 adopted a new reporting standard known as Statement No. 34 for state and local governments. The new reporting standard significantly changes the format and content of annual financial reports for these entities and, consequently, the content and capability requirements of their accounting processes. Over the next few years these governmental entities must revise their annual reports to meet the new standard if they expect to remain or become compliant with Generally Accepted Accounting Principles (GAAP) and qualify for the best financial ratings in areas such as issuing new bond debt.

County Expenditures Percentages

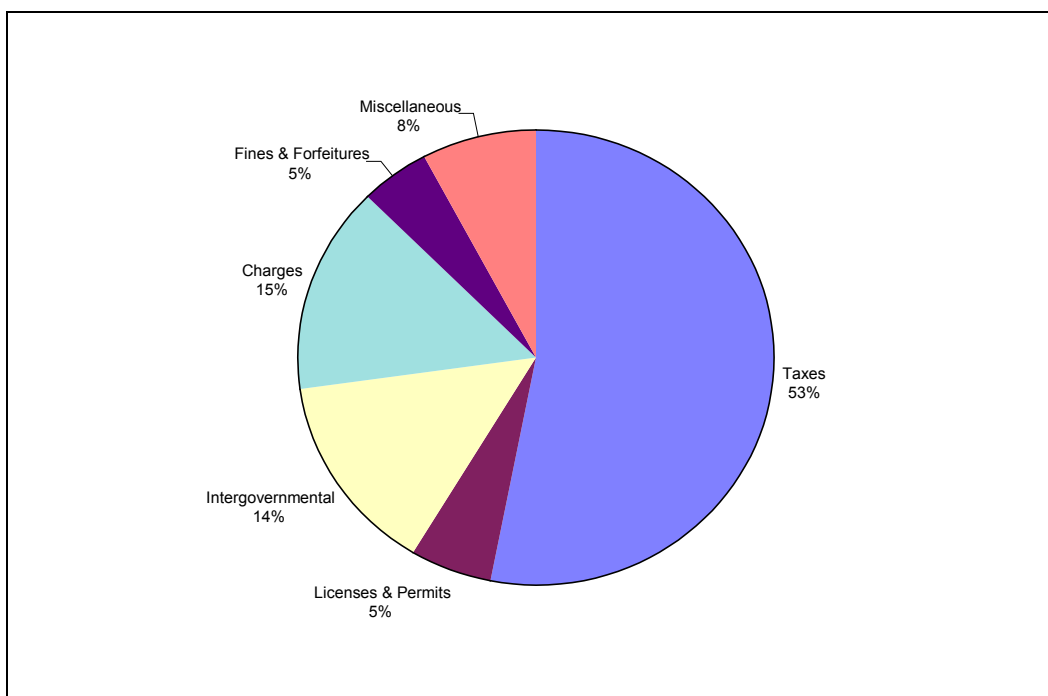


Although we cannot determine the costs of particular county duties and although the data for individual counties vary widely, we can get a general picture of expenditure percentages by functional/financial category. For example, Administration of Justice and Public Safety, together, account for over 50% of total county expenditures. Surprisingly, Public Works (which includes road and bridge expenditures) amounted to only 13% for the study counties.

Ability of County Tax Bases and Fees to Support Such Duties. Since there are no objective accepted criteria for evaluating a county's ability to pay, such a determination would be almost entirely subjective. There are, however, data that provide some insight into the answer to this part of the Interim Charge.

The first step in analyzing ability to pay is to determine the sources of county revenue. Totaling all revenue sources reported by the study counties, the following chart shows the percent of total revenue by source.

County Revenue Percentages



Although the figures from the individual counties vary, in the aggregate, taxes (property and sales) appear to be the single-most significant source of revenue at 53%. Since sales taxes are not used by all counties, we assume that property tax is the bulk of all taxes in this category.

The Ability to Pay section of the report contains a presentation of data related to county financing problems in areas such as Appraised Property Value, Maximum Tax Rates, limits on potential increases in tax revenues, and population decreases. Selected highlights from this data and from other sources are included below.

Using the property tax data for 1999 from the Property Tax Division of the Comptroller of Public Accounts and 1999 population estimates from the State Data Center, the CIP determined that:

- 7 counties are taxing at the maximum General Fund tax rate
- 32 counties are at 80% or greater of their total General Fund taxing capability.
- 49 counties are within 75% of their maximum (all 49 are under 31,000 population with only 6 over 15,000 population)

When the CIP estimated the maximum possible 1999 General Fund tax increase without hitting the statutory rollback election point, we found that:

- 8 counties could not raise \$6,500 without hitting roll back and 7 of the 8 are already taxing at the maximum legal General Fund tax rate (5 counties would not have been able to raise \$6,500 based on 1998 tax data with 4 of them already at the maximum)⁷
- 21 counties could not raise \$ 50,000 (18 counties using 1998 data)
- 65 counties could not raise \$ 100,000 (60 counties using 1998 data)
- 119 counties could not raise \$ 200,000 (120 counties using 1998 data)
- 193 counties could not raise \$ 500,000 (193 counties using 1998 data)
- 224 counties could not raise \$1,000,000 (223 counties using 1998 data)

Other factors which could have an effect on the ability of counties to fund their operations are⁸:

- 102 counties (40%) had over 20% or more of their population living in poverty in 1999

⁷ Data for 1998 has been included in these bullets for comparison purposes due to the significant decline in oil prices from 1998 to 1999. The Preliminary Report included data from 1998 only.

⁸ Not adjusted for inflation.

- 47 counties (18.5%) had overall negative population growth from 1990 to 1999 and 35 additional counties had less than 3% positive growth while the state overall had a positive 17.3% growth rate for that period
- 69 counties (27.5%) saw a decline in total appraised values from 1991 through 1998 although the CIP estimates inflation to have been 19.7% for that period
- 76 counties (29.9%) saw a decline in total appraised values from 1991 through 1999 although the CIP estimates inflation to have been 22.3% for that period

From the 1998 to the 1999 tax years 104 counties reported a decline in appraised value. For 89 of those counties the amount of decline in the minerals category equated to 80% or more of the overall decline in appraised value between those two years. In some cases the decline in the mineral category was more than 100% of the overall decline as other appraisal categories increased during that period as an offsetting factor. The impact of the volatile nature of appraisals in the minerals category is an example of the difficulties faced by counties attempting to generate a constant level of revenues to support county operations.

Conclusions. While the above information is by no means comprehensive or determinative, it does indicate that a significant number of counties have a limited ability to fund current and future operations. At least 8 counties are essentially “tapped out.”

Although this condition is most visible in the less populated counties, it must be remembered that the larger counties have more people to serve and infrastructure to fund than do the smaller counties. In addition, it is possible that the growth counties may suffer even greater financial stress because they are having to build programs and infrastructure to deal with the growth before the appraised values increase sufficiently to fund those operations.

All of this is occurring during the greatest period of economic growth that Texas and the United States has ever seen. Analyzing the effect of an economic downturn – however slight – is beyond the scope of this report.

III. SOURCES OF DATA

State and Federal Agencies. As a group, state and federal agencies collect and maintain a wealth of data at the county level. These data sets are generally for specific purposes and are not designed in a way that allows them to be easily used together. As a result, these data sets stand alone within the various agencies and are difficult to locate and use.

With regard to county financial information, there are several sources of this specific-purpose data. Examples are property tax and state expenditure data from the Comptroller of Public Accounts, federal expenditure data from the Consolidated Federal Funds Reports available from the U.S. Census Bureau, bond debt data from the Texas Bond Review Board, and other data sets that are derived from state-mandated reporting requirements such as the county road and bridge expenditure reports submitted to the Comptroller of Public Accounts. For a more detailed explanation of data sources, see Exhibit 1.

County Financial Data Collection Program. Other data contained in this report was acquired through the County Financial Data Collection Program (the survey). Financial information from 66 of the surveyed counties was used in this report to analyze operations (detail) level data and a sub-set of 63 of these counties was used to analyze summary level data. Further information on the survey response and survey data issues is contained in Exhibit 3.

IV. GENERAL INFORMATION ABOUT TEXAS COUNTIES

Texas has 254 very diverse counties. In geographic size, they range from 6,193 square miles in Brewster County to 149 square miles in Rockwall County. Population differences are even more pronounced, ranging from an estimated 3,229,026 in Harris County to an estimated 95 in Loving County. Less than 23% of the population live in 86.7% of the geographic area of the State. Over 77% of the population lives in only 34 counties. These 34 counties occupy less than 13.3% of the land area. Four of those contain over 40% of the state's population, but only occupy approximately 1.8% of the land area.

The following table shows the number of counties that are within various population brackets using January 1999 population estimates. The relative percent of total state population within each bracket is also provided in the table.

Representative County Population Brackets

County Brackets	Number of Counties	% of All Counties	1999 Population ⁹ (estimated)	% of State Population
One Million and Over	4	1.57%	8,026,847	40.28%
500,000 to One Million	3	1.18%	1,940,317	9.74%
250,000 to 500,000	6	2.36%	2,092,113	10.50%
100,000 to 250,000	21	8.27%	3,393,544	17.03%
50,000 to 100,000	20	7.87%	1,410,801	7.08%
25,000 to 50,000	43	16.93%	1,515,801	7.61%
15,000 to 25,000	39	15.35%	750,265	3.77%
10,000 to 15,000	29	11.42%	371,835	1.87%
5,000 to 10,000	39	15.35%	285,870	1.43%
Under 5,000	50	19.69%	138,184	0.69%
1999 State Totals	254		19,925,577	

Several significant facts can be readily derived from the table:

- 34 counties have over 100,000 people totaling over 77% of the state's population.
- 4 counties have over a million people and together contain 40.28% of the state's population.

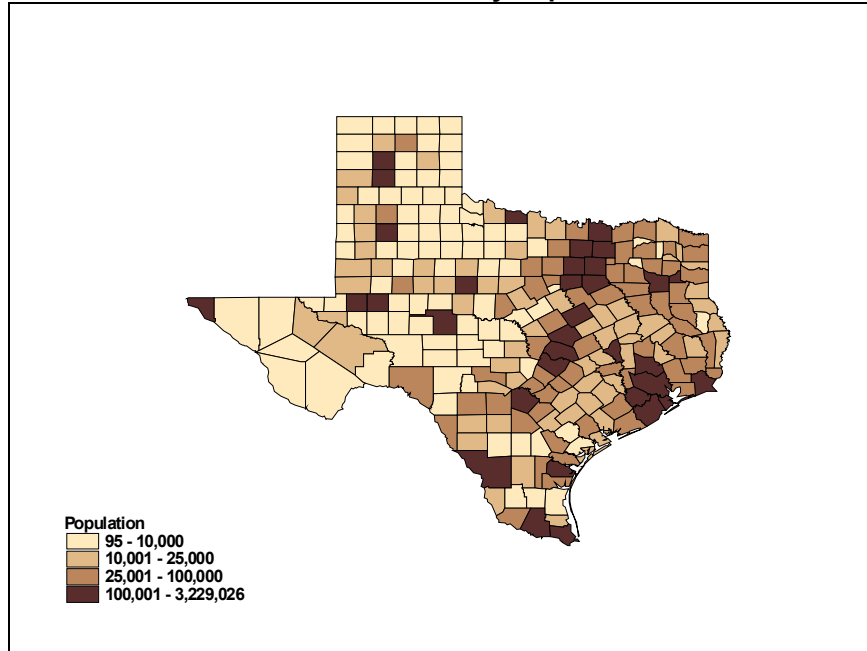
On the other end of the scale:

- 157 counties (61.8% of all counties) have less than 25,000 people – approximately 7.76% of the state's total population.
- 50 counties (19.7% of all counties) have less than 5,000 people – approximately 0.69% of the state's total population.

The following map shows the population ranges of Texas counties, expressed in four population brackets.

⁹ Texas State Data Center. (2000). Estimates of the total populations of counties and places in Texas for July 1, 1998 and January 1, 1999. Available at: http://txsdc.tamu.edu/tpepp/1998_txpopest_county.html

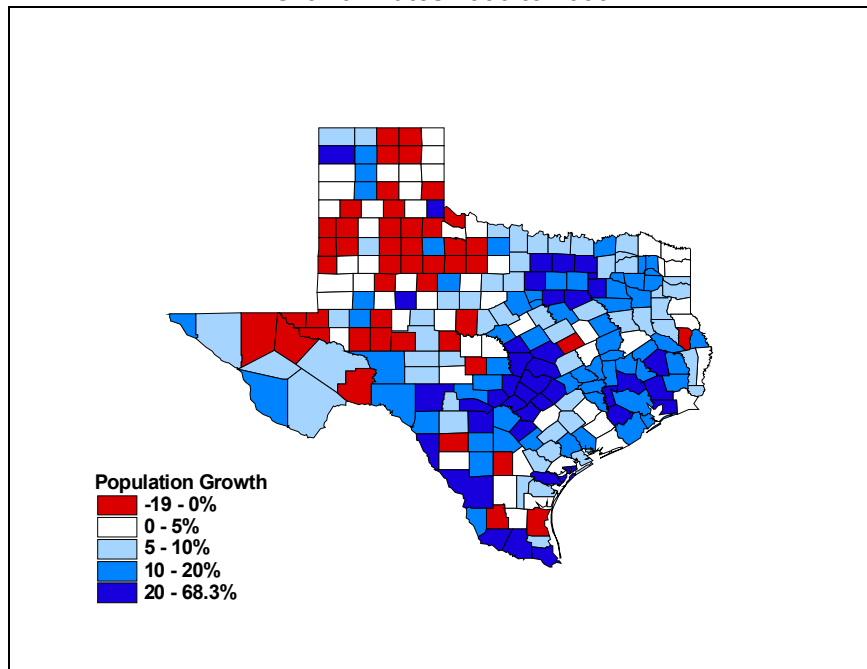
1999 Texas County Populations



According to State Data Center estimates, the state has grown by 2,939,242 people since 1990 -- a 17.3% increase. This is the equivalent of adding another City of Houston and City of Dallas to the state's population since 1990.

The growth, however, has not been uniform. The following map shows the percent population change for Texas Counties since 1990. Of particular note, 16 counties had over 80% of the state's growth since 1990.

Growth Rates 1990 to 1999



V. PRESENTATION OF DATA

A. Cost of County Duties. The first part of the Committee’s charge is to “[r]eview the cost of statutory county duties, including federal mandates....” This section of the report addresses county duties and the costs incurred in the performance of those duties. The first part of this section discusses the duties and responsibilities of counties. The second explains the mandatory versus permissive nature of those duties. In the third part, the expenditures relating to those duties are analyzed. The fourth part reviews information on county debt. The fifth part contains the CIP’s conclusions about the expenditure data.

1. Duties and Responsibilities of Counties. Texas counties are the means whereby the powers of the state are exerted through a form and agency of local government for the performance of those obligations which the state owes the people at large. A Texas county, therefore, has only such powers expressly conferred upon it by the constitution and the legislature, as well as the implied powers necessary to exercise its express powers.¹⁰ The policy which they execute is the general policy of the state government.¹¹

Generally, the county government exercises its powers and duties in the following major areas:

- Operation and support of the court system
- Provision of law enforcement and operation and maintenance of jails
- Provision of roads and bridges
- Maintenance of official records
- Conduct of elections
- Indigent health care and other care for the poor
- Enforcement of certain state regulatory activities
- Limited local regulatory authority

Attempts to locate and catalog the individual laws that authorize or require county action are complicated by the fact that they are scattered throughout the Texas Constitution and the Texas Statutes and Codes. Meaningful, comprehensive analysis is further complicated by the existence of numerous legal opinions from state and federal courts and the Texas Attorney General construing the meaning of those laws.

Despite these difficulties, the CIP has compiled a detailed listing of county duties using a variety of secondary sources¹² and the laws and codes themselves. For ease of analysis, the list arranges the duties within their particular financial reporting/accounting category as explained below. This list is a “work in progress” and is not to be considered a complete or final listing. It is included in this report as Exhibit 5 - County Duties.

The research and compilation of federally-mandated duties was conducted by the Texas Legislative Council. The Council’s current list of federal mandates and fiscal impacts is included in this report as Exhibit 6 – Federal Mandates. Since the list of federal mandates is not as detailed as the state duties list, no attempt was made to include them within the financial categories. The identification and compilation of the individual federal laws and rules that could create a financial impact on county government is a significant undertaking. The CIP does not have the resources at this time to do this work.

¹⁰ *Canales v. Langlin*, 147 Tex. 169, 214 S.W.2d 451, 453 (1948).

¹¹ *Bexar County vs. Linden*, 220 S.W. 761, 763 (Tex. 1920).

¹² County Powers and Duties, Attorney General of Texas (1999); Guide to Texas Laws for County Officials, Texas Department of Housing and Community Affairs (1999-2000 Ed.); Working Papers, Legal Department of the Texas Association of Counties (1997).

2. **Mandatory Duties.** The CIP was unable to perform any analysis of county duties based upon mandatory versus permissive classifications. The determination of which county duties are “mandatory” and which are “discretionary” is problematic for a variety of reasons. In our research, we looked for mandatory language such as “shall” and for permissive language such as “may.” Frequently, however, courts have held statutes containing “shall” language to be discretionary and statutes containing “may” language as mandatory. In addition, certain duties, although not required by statute, may be required by local political conditions. Further, although a statute may be mandatory, there is generally no particular level of service defined. The individual counties appropriate such funds to the task as local conditions warrant. It would be difficult to quantify the ultimate financial impact of such laws.

Nonetheless, the CIP reviewed the duties and made a subjective attempt to assign a mandatory or permissive classification to each. In the detailed listing of county duties by financial category, included herein as Exhibit 5, those duties that the CIP felt could be considered mandatory are marked with the letter “M” in the column just to the right of the description of the duty. Those that could be considered permissive are marked with the letter “P.”

It must be emphasized that designation of a particular law as mandatory or permissive was purely subjective and is included for information purposes only. This report does not analyze the cost of mandatory duties versus permissive or discretionary duties.

3. **Cost of State and Federally Mandated Duties.** As stated above, other than in the list of county duties, this report does not distinguish between the costs of mandatory and permissive duties. Further, it is not possible at this time to produce any reliable estimate of the discrete cost of any particular state and federally-mandated duty because there is presently no standard accounting system or reporting program that would provide the comparable data necessary to form the basis for such an analysis.

Since the CIP cannot at this time attribute a cost to particular duties, whether considered mandatory or discretionary, this report attempts to address county duties and expenditures at the financial category level (General Government, Public Safety, Administration of Justice, etc.). Until a greater level of reliable, comparable data can be developed, this will serve as a starting point for further analysis.

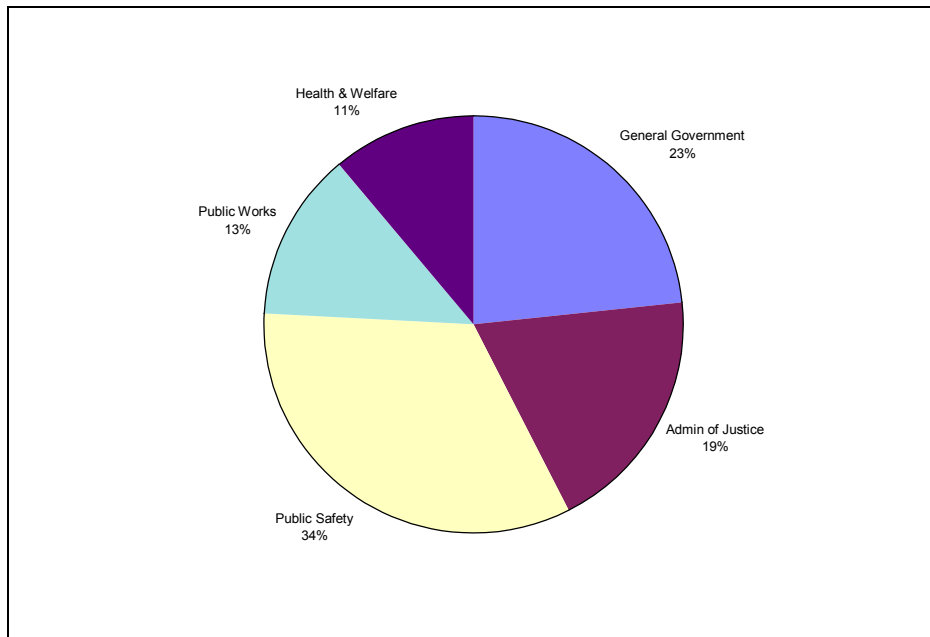
In computing totals, percentages, and other ratios for expenditures, this report considers only the following major expenditure categories, except where noted otherwise. For a detailed list of items included in each category, please see Exhibit 7 - Annual Fiscal Report for Counties, and Exhibit 8 - Manual of Accounts for Texas Counties.

- General Government Expenditures -- All expenditures for the legislative and judicial branches of county government. Includes expenditures made by the chief executive officer and other top-level auxiliary and staff. Included in this category are Maintenance of Official Records and Conduct of Elections.
- Administration of Justice Expenditures -- All court activities including juries, probate officials, prosecutors, bailiffs, marshals, public defenders, county attorneys, and court activities of sheriff's departments. Included in this category is Operation and Support of the Court System.
- Public Safety -- Activities and programs for the protection of persons and property. The major sub-functions under public safety are police protection, fire protection, protective inspection and correction. Included in this category are Provision of Law Enforcement and Operation and Maintenance of Jails, Enforcement of State Regulatory Activities, and Local Regulatory Authority.
- Public Works -- Activities and programs for the construction of public works projects, building maintenance, roads and bridges, sanitation, etc.
- Health & Welfare -- All activities involved with the conservation and improvement of health (Health) and all activities designed to provide public assistance and institutional care for individuals economically unable to provide essential needs for themselves (Welfare). Indigent Health Care and other Care for the Poor are included in this category.

Due to extreme variations and problems with data collection, the following categories were not included in the analysis: Culture/Recreation/Education, Resource Development, Debt Service, Intergovernmental, and Capital Outlay Expenditures. See Exhibit 3 for further discussion of excluded data.

As mentioned before, although various state agencies collect certain program-specific county expenditure data, there is no comprehensive statewide system for the collection of county financial data. Therefore, the financial data from the survey counties is the only comparative data currently available. Based upon that data, the following pie chart shows the percent of total expenditures that survey counties spent on each of the five study categories.¹³

County Expenditure Percentages



The following data relate to each category as a percent of the total Governmental Funds expended by each county for the five categories included in the study. Several of the categories also present per capita averages using the estimated 1999 county population data as the basis as well as detail level analysis of expenditures from the Statement of Operations - Expenditures. The detail level analysis used data from a group of 66 counties that included the group of 63 counties that were the source for financial analysis for the majority of the report. At the lower level of reporting the accounting differences between counties becomes more noticeable. For example four of the 66 counties reported no Road and Bridge expenditures in that particular sub-category, nineteen counties reported no Welfare-Care For the Indigent expenditures, and five counties reported no Public Safety-Law Enforcement expenditures.

- a) *General Government Expenditures.* The expenditures in this category ranged from a low of 11.7% (Bee) to a high of 70.7% (Callahan).
- b) *Administration of Justice Expenditures.* The expenditures in this category ranged from a low of 0.3% (Hidalgo) to a high of 51.6% (Webb). Burnet and Knox counties did not report any expenditures for Administration of Justice.
- c) *Public Safety Expenditures.* The expenditures in this category ranged from a low of 4.0% (Hood) to a high of 55.6% (Hudspeth). Hood was the only county that reported less than 10% while 36 counties reported at least 25% of their expenditures went to Public Safety. Per capita expenditures ranged from a low of \$10.96 (Hood) to a high of \$942.12

¹³ The pie chart shows the percent of total expenditures for all 63 counties, not the average. For example, the formula for General Government is the sum of general government expenditures divided by the sum of total expenditures.

(Hudspeth). This data would appear to show that non-metropolitan counties located adjacent to metropolitan counties have higher per capita Public Safety expenditures than rural or metropolitan counties. Swisher and Floyd Counties, however, did not show this trend.

Data for the group of 66 counties reviewed at a detail level show that Dallas County reported the greatest Law Enforcement expenditures from Governmental Funds at \$42,775,659 and Knox County reported the least at \$114,635. For this sub-category on a per capita basis Refugio County was the highest at \$179.64 and Lubbock County was the lowest at \$17.97 with five counties (Edwards, Erath, Karnes, Randall, and Upshur) reporting no Law Enforcement expenditures at this level of detail.

- d) *Public Works Expenditures.* The expenditures in this category ranged from a low of 2.5% (Runnels) to a high of 54.5% (Wilbarger).

For the group of 66 counties Road & Bridge sub-category Governmental Funds expenditures by Dallas County of \$10,683,315 was the high and \$73,735 by Callahan County was the low with four of the 66 counties reporting no expenditures. On a per capita basis Hudspeth County was the high at \$330.20 while Dallas County was the low at \$5.16 and Callahan County was the third lowest at \$5.76. Dallas County had the highest estimated 1999 population in the 66 counties at 2,069,094 while Hudspeth County was the fourth lowest at 3,064 and Callahan County was the 26th lowest at 12,805. These figures indicate that magnitude of population was not the sole determining factor positioning a county on the per capita scale.

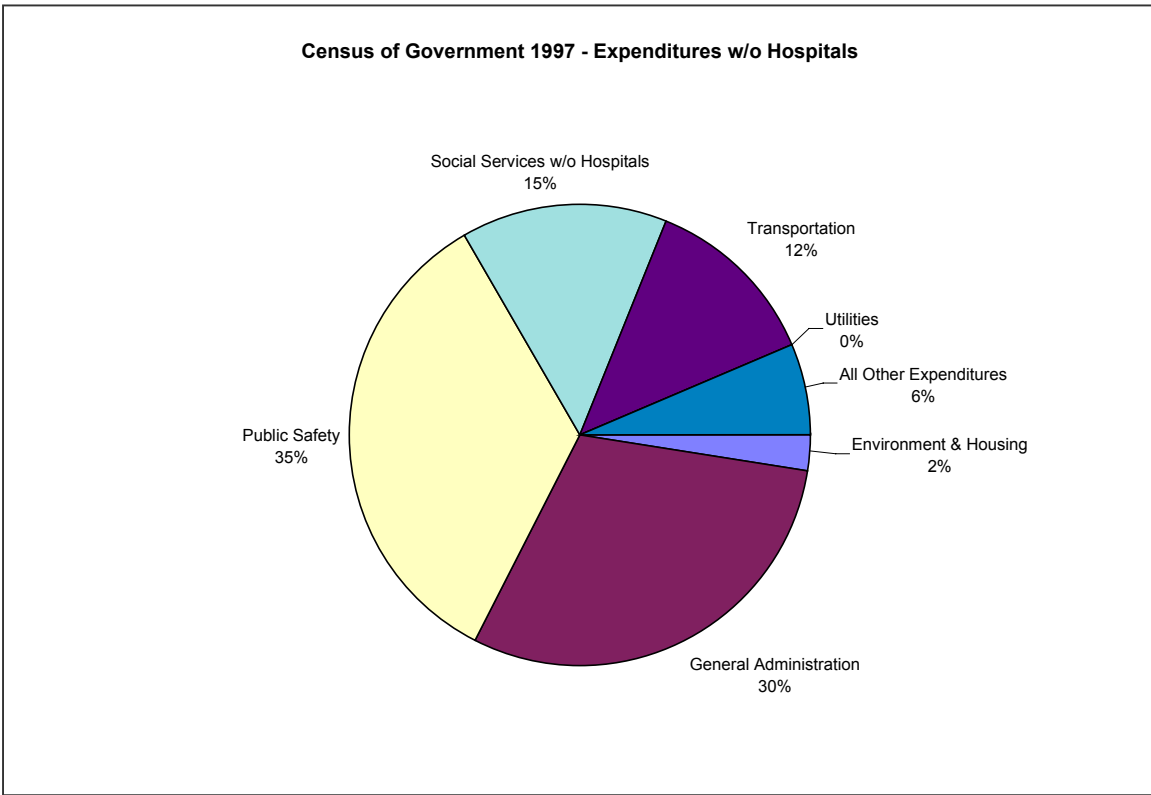
- e) *Health and Welfare Expenditures.* The expenditures in this category ranged from a low of 0.2% (Haskell) to a high of 43.0% (Bee). Collingsworth, Hood, McCulloch, Sabine and Upshur counties did not report any Health and Welfare expenditures.

For the group of 66 counties Welfare – Care for the Indigent Governmental Funds expenditures by Dallas County were the greatest at \$3,860,581 and \$410 by Sherman County was the least with 19 counties reporting no expenditures in this sub-category. On a per capita basis Kinney County was the high at \$45.41 and Presidio County was the low at \$0.13.

- 4. Census of Governments Data.** In addition to the data collected from the Annual Fiscal Report survey, data from the U.S. Census Bureau's Census of Governments 1997 was reviewed. The Bureau sends survey forms to local governments (counties, cities, etc.) annually. Normally these forms are sent to a representative sampling of local governments; however, every 5 years the Bureau sends their survey to every local government including all 254 counties in Texas.¹⁴ The most recent of these, Census of Governments 1997, was published in the fall of 2000. Although it covers a different year than the CIP survey data, information from this report has been included since it covers more counties than the CIP survey.

The CIP created two pie charts showing Expenditures and Revenues respectively based upon the Census of Governments 1997 data and categories. The pie chart below shows county level expenditures other than those for hospitals.

¹⁴ See the introduction to this report for more information.

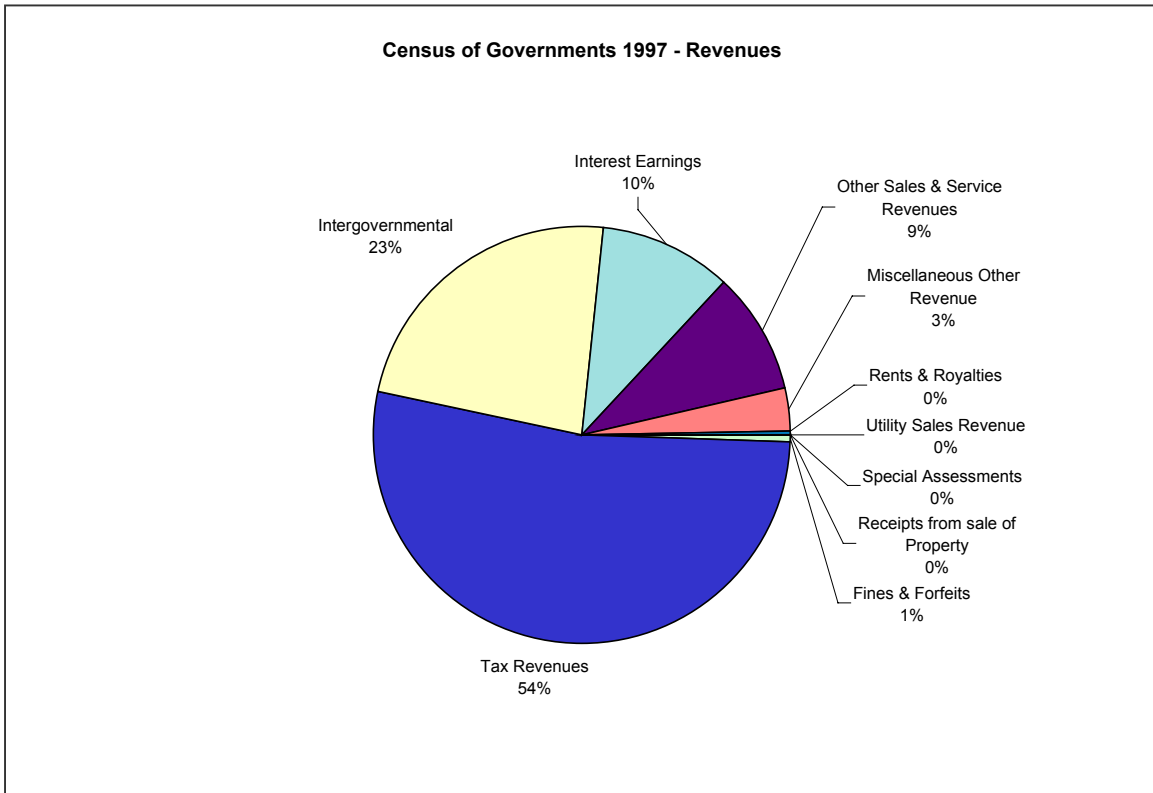


The Census Bureau's categories are not exactly the same as those used by the CIP survey. In addition, the surveys cover different years. Thus it is not possible to make direct apples-to-apples comparisons with the data collected by the CIP survey. In large part, this is due to differences in how the two surveys group detail-level data into general categories. In categorizing the detailed data, each organization has taken a slightly different approach based upon fundamental differences in how the Bureau designed its form for generic American counties and how the CIP designed its form for Texas counties only.

In keeping with the goal of this report in focusing on the "core functions" of county government, not all data from the Census of Governments 1997 was included. All data related to hospitals were removed since the CIP survey did not include Component Units or Proprietary Funds (hospitals are considered component units for most of the counties in the survey). Non-core function expenditures such as Education, Parks and Recreation, and Libraries were also not included.

Curiously, given the above caveats, the CIP and Bureau data sets show that Public Safety accounted for 34% and 35% of county expenditures respectively. Social Services (without hospitals) accounts for 15% of the Bureau's total which is fairly close to the CIP Survey results of 11% for Health & Welfare. Adding the 2% for Environment & Housing¹⁵ to the 12% reported for Transportation gives 14% of the total which equates roughly to the 13% shown in the CIP survey for Public Works.

¹⁵ Environment & Housing includes Sewerage and Solid Waste Management.



In preparing the chart on Revenues, certain data were not included. These were:

- Social Services - Hospital Public,
- Other Sales & Service Revenues - Development, and
- Other Sales & Service Revenues - Parks & Recreation

Note that both Intergovernmental - Development and Intergovernmental - Parks & Recreation are included in this pie chart.

After making the adjustments mentioned above, taxes account for 54% of the Bureau's total revenues. Coincidentally, taxes made up 53% of the total revenues for the CIP survey counties.

While the categories do not exactly match up, there are sufficient similarities to indicate that the CIP survey counties are representative of all 254 counties at the general level. Of course, this says absolutely nothing about whether or not the CIP survey counties are representative of the state at the detail level.

5. County Debt. Although the survey requested that counties supply data on their debt, the CIP obtained more detailed information from the Texas Bond Review Board's (TBRB) web site. The Board maintains detailed spreadsheets showing the amount of debt for counties.¹⁶

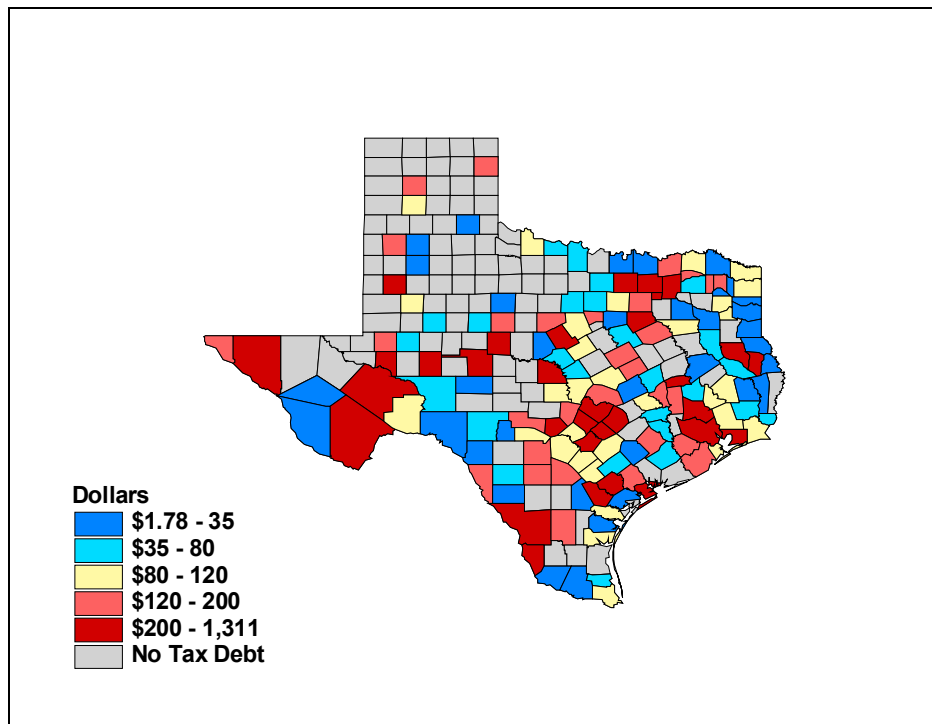
- a) Tax Supported Debt Per Capita. This ratio is derived by dividing the Estimated 1999 county population into the Tax Supported Debt for each county.¹⁷ There are 100 counties that did not have any tax supported debt. The high for the survey counties was \$368.80 (Hudspeth). The low for those survey counties that had Tax Supported Debt was \$3.86 (Presidio). The high for all counties was \$1,311.22 (Pecos) and the low was \$1.78 (Shelby). The following map shows the amount of tax supported debt per capita for all Texas counties in 1999.¹⁸

¹⁶ For details on service requirements and years to maturity, see the TBRB's ftp site (<ftp://www.brb.state.tx.us/pub/local/99CNYTR.xls>).

¹⁷ The source for the Estimated 1999 County Population figures is published data from the Texas State Data Center. The source for a county's Tax Supported Debt is data available from the Texas Bond Review Board

¹⁸ Tax Supported Debt Per Capita is computed by dividing the principal outstanding as of August 31, 1999 by the Texas State Data Center's population estimate for January 1, 1999.

Tax Supported Debt Per Capita - 1999



b) Revenue Supported Debt Per Capita. This ratio is derived by dividing the Estimated 1999 county population into the Revenue Supported Debt for each county.¹⁹ As of 1999, only 10 counties statewide have revenue supported debt. They are:

• Cameron	\$14,075,000	or \$44.29 per capita
• Cass	\$12,620,000	or \$405.32 per capita
• Culberson	\$140,000	or \$44.67 per capita
• El Paso	\$8,090,000	or \$1.57 per capita
• Harris	\$820,805,000	or \$254.20 per capita
• Leon	\$6,650,000	or \$474.80 per capita
• Madison	\$140,000	or \$11.35 per capita
• Milam	\$16,855,000	or \$671.33 per capita
• Starr	\$3,972,000	or \$75.87 per capita
• Victoria	\$51,605,000	or \$614.21 per capita

Only two of the survey counties, El Paso and Madison above, reported revenue supported debt.

6. Expenditures - Conclusions. Texas counties have a wide range of population, geographic and demographic features, tax bases, etc., which make analysis difficult and create the dichotomies seen in the expenditure data. Complicating the analysis, the counties utilize a number of different accounting methods, systems, and fiscal years which will continue to prevent meaningful detailed analyses. It should be noted that the State of Texas uses a different fiscal year than the counties or the federal government. Given these facts, it is not possible, at this time, to provide reliable, relevant "apples-to-apples" comparisons of the counties on a statewide basis.

Although not within the scope of this report, it appeared that the majority of counties included in this report tended to be Government Accounting Standards Board (GASB) compliant and had received a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada.

¹⁹ The source for the Estimated 1999 County Population figures is published data from the Texas State Data Center. The source for a county's Revenue Supported Debt is data available from the Texas Bond Review Board.

It also appeared that those counties claiming the least amount of time spent preparing a response to the survey tended to have accounting systems that were able to track expenditures and other data along the same lines as that requested in the survey. In other words, the counties' employees had to spend less time converting the data from the counties' categories to those required by the report.

B. Ability of County Tax Bases and Fees to Support County Duties. The second part of the interim charge is to review the ability of county tax bases and fees to support statutory county duties. This section will examine the sources of county revenues. Once again, there is insufficient data from which to draw any concrete conclusions about the ability of counties to fund their constitutional and statutory duties. There are, however, several factors included in this report that should shed some light on the question.

1. Sources of Revenue. Counties, as with other governmental entities, have six primary sources of revenue:

- Taxes
 - General Property Taxes
 - General and Selective Sales and Use Taxes
- Licenses and Permits
- Intergovernmental Revenues
- Charges for Services
- Fines and Forfeitures
- Miscellaneous

a) *General Property Taxes.* These are taxes levied on an assessed valuation of real and/or personal property. The distinguishing characteristics of general property taxes are that the revenues are (1) derived from taxes, (2) levied by the governmental entity (not taxes collected for others), and (3) assessed on the general property.²⁰ Excluded are (1) all non-tax revenue, (2) taxes levied by another governmental entity even when they are distributed to another government, and (3) all taxes levied upon subjects or bases other than general property.²¹

A county's ability to levy taxes on property is limited by the Texas Constitution as set forth below. The "General Fund" tax is the primary source of property tax revenue for counties and is levied in varying degrees by all counties. Voter approval is required for the other property taxes and they are not universally levied (see below).

- "General Fund" Tax. This is the primary property taxation vehicle for county governments in Texas. It is limited to eighty cents per one hundred dollars of property valuation.²² Revenue from this tax may be used for any authorized county purpose.
- Special Road and Bridge Tax. A maximum fifteen cents per one hundred dollars of property valuation for road and bridge maintenance authorized by the Constitution.²³ This tax must be authorized by the voters at an election for that purpose. Revenue from this tax may only be expended for maintaining roads and bridges. In 1999, eighty-two counties collected a Road and Bridge Tax.
- Farm-to-Market and Flood Control. A maximum thirty cents per one hundred dollars of property valuation for farm-to-market roads and flood control authorized by the Constitution.²⁴ This tax must be authorized by the voters at an election for that purpose. Revenue from this tax may only be expended for construction and maintenance of farm-to-market and lateral roads and/or flood control – as allocated on the ballot authorizing the imposition of the tax. In 1999, one hundred and twenty counties collected a Lateral Road/Flood Control Tax.
- "Seawall Tax." Counties along the Gulf Coast are authorized to levy a fifty cents per one hundred dollars of property valuation tax for the limited purpose of construction

²⁰ *Governmental Accounting, Auditing, and Financial Reporting*, Government Finance Officers Association (Chicago 1994).

²¹ *Id.*

²² TEX. CONST. art. VIII, § 9.

²³ TEX. CONST. art. VIII, § 9; TEX. REV. CIV. STAT. ANN. art. 6702-1, § 4.03

²⁴ TEX. CONST. art. VIII, § 1-a; TEX. REV. CIV. STAT. ANN. art. 6702-1, § 4.103

and maintenance of seawalls, breakwaters, or sanitary purposes. This tax must be authorized by the voters at an election for that purpose.²⁵ It is unknown at this time how many eligible counties levy this tax.

- Other Taxes. Several statutes authorize counties to levy certain special purpose taxes. These taxes, however, when combined with the "General Fund" tax, may not exceed the 80-cent "General Fund" tax limitation contained in Article 9 of the Constitution. In other words, these taxes are actually "General Fund" taxes that are designated for specific purposes.
- b) *General and Selective Sales and Use Taxes.* These are direct taxes imposed upon the sale or consumption of goods and/or services.²⁶ They can be "general" when levied against all sales (usually with some exceptions) or "selective" when levied against specific products such as tobacco, motor fuels, etc. General and selective sales and use taxes available to counties include:
- County Sales and Use Tax.²⁷ Voter approval required. A county may not adopt a sales and use tax under this section if as a result of the adoption of the tax the combined rate of all sales and use taxes imposed by the county and other political subdivisions of this state having territory in the county would exceed two percent at any location in the county. In a county that has adopted the tax authorized by this chapter, there is imposed a tax on the receipts from the sale at retail of taxable items within the county at the rate of one-half of one percent, or in a county that includes no territory within the limits of a municipality, one percent. May not impose if a part of the county is covered by certain transit authorities. As of November 2000, 119 counties levy a County Sales and Use Tax.²⁸ With the exception of Terrell County, all have a ½ cent tax. Terrell has a one-cent tax.
 - Special Motor Vehicle Sales and Use Tax.²⁹ An amount equal to five percent of the tax and penalties collected by the comptroller under Section 152.047, Tax Code, in the preceding calendar year.
 - Hotel Tax.³⁰ Authorized in counties that fall within thirteen different brackets. Four tax rates, depending on bracket. Range from 2% to 7% of the price of a room. Use of funds depends upon bracket. Generally, funds may only be used for promotion and tourism.
 - Health Services Sales and Use Tax.³¹ Counties under 50,000. Voter approval required. Rate is ½%. Cannot cause total sales tax in any part of the county to exceed 2%. May be used only to provide health services in the county.
 - Mixed Beverage Tax.³² Counties receive 10.7143% of receipts from permittees within the county during each quarter (cities receive the same for receipts within the incorporated limits). This could be considered an Intergovernmental Revenue.
 - Sales And Use Tax For Landfill And Criminal Detention Center.³³ Authorized in counties with population of 37,500 or less that border the Rio Grande containing a municipality with a population of more than 15,000. Rate is ½%. Tax cannot cause the total sales tax in any part of the county to exceed 2%. That portion of the tax collected under this chapter necessary for the operation of the landfill is dedicated

²⁵ TEX. CONST. art. XI, § 7; TEX. REV. CIV. STAT. ANN. art. 6830

²⁶ *Governmental Accounting, Auditing, and Financial Reporting*, Government Finance Officers Association (Chicago 1994).

²⁷ Tax Code, Chapter 323

²⁸ <http://www.cpa.state.tx.us/taxinfo/local/county.html>

²⁹ Tax Code, Chapter 152; Transportation Code, Section 502.102

³⁰ Tax Code, Chapter 352

³¹ Tax Code, Chapter 324

³² Tax Code, § 183.051

³³ Tax Code, Chapter 325

solely to that purpose. That portion of the tax collected under this chapter necessary for debt services for criminal detention center bonds is dedicated solely to that purpose.

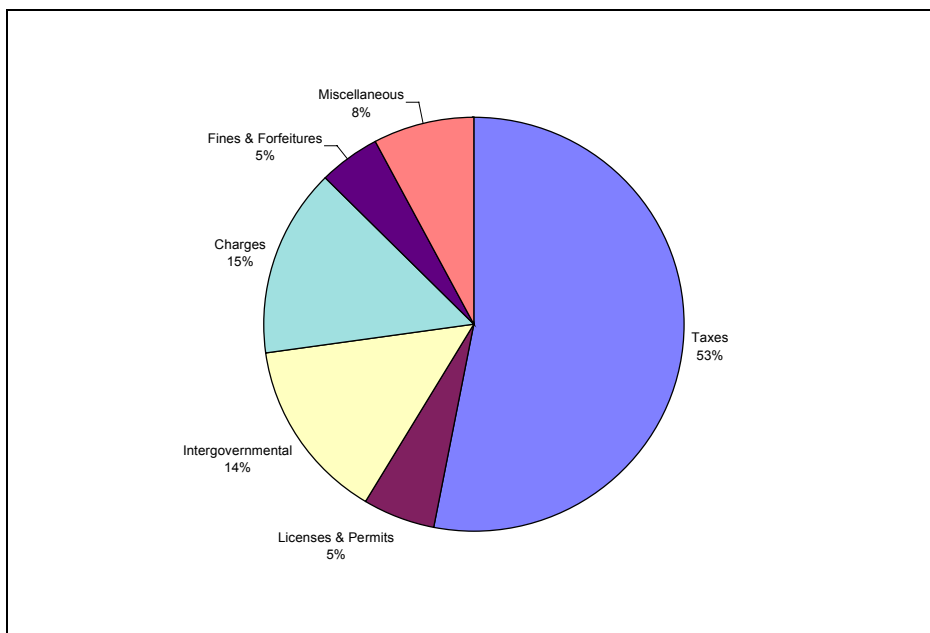
- c) *Licenses and Permits.* License and inspection charges on occupations and businesses, animals, vehicles, etc. For counties, these include alcoholic beverage licenses, motor vehicle registration, septic tank permits, marriage licenses, registration of dogs and cats, etc.
- d) *Intergovernmental Revenue.* These are revenues from other governments in the form of operating grants, entitlements, shared revenues or payments in lieu of taxes. An operating grant is a contribution or gift of cash or other assets. An entitlement is a payment to which a government is entitled pursuant to an allocation formula contained in applicable statutes. A shared revenue is a revenue levied by one government, but shared on a predetermined basis. Payments in lieu of taxes are payments made from general revenues by one government to another in lieu of taxes it would have to pay, had its property or other tax base been subject to taxation by the recipient government on the same basis as privately owned property or other tax base.³⁴ For the survey, this category also includes payments received through interlocal agreements.
- e) *Charges for Services.* Charges not covered by any other categories, such as those derived from court (including court costs) and recording fees, police, fire, correction, defense, public welfare, public nursing homes, public libraries, airports, parks, county-owned utilities, and health activities.
- f) *Fines and Forfeitures.* Receipts from penalties imposed for violations of law – civil and criminal.
- g) *Miscellaneous.* This category includes all other revenue sources not included in the above categories. These include special assessments, interest income, rents and grazing, royalties, parking facilities, sales and leases of property, gains and losses on investments, and interest on capital leases

2. **Revenue Analysis.** As with expenditure data, although various state agencies collect certain program-specific county revenue data, there is no comprehensive statewide system for the collection of county financial data. Therefore, the financial data from the survey counties is the only such consolidated data currently available. Based upon that data, the following pie chart shows the percent of total revenue that survey counties received in each of the county revenue categories.³⁵

³⁴ *Governmental Accounting, Auditing, and Financial Reporting*, Government Finance Officers Association (Chicago 1994).

³⁵ These percentages are not averages. They represent the percentage of revenue for all of the 63 counties taken as a group.

County Revenue Percentages



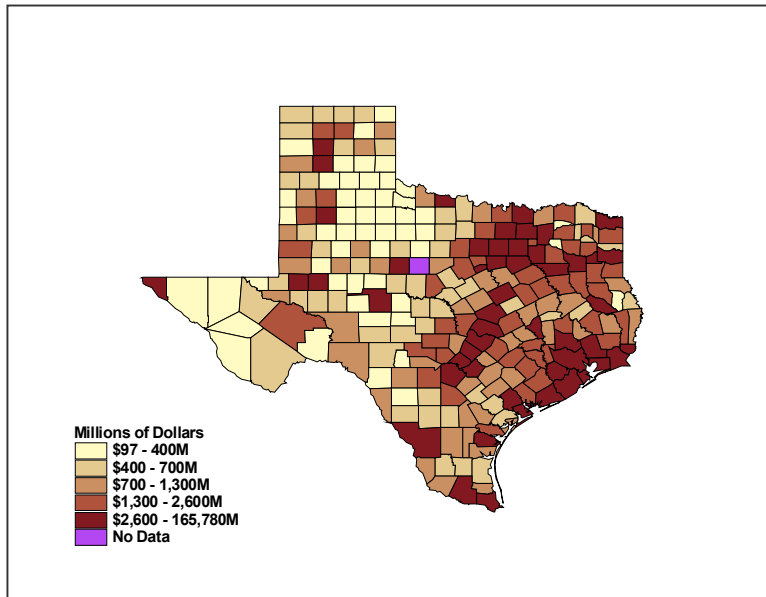
Taxes represented 53% of the total county revenue for 1999. Of course this means that almost half (47%) of the revenue generated by counties came from other sources. Charges for Services and Intergovernmental Revenues provided the lion's share of the remaining revenue accounting for 15% and 14% respectively of the total. Licenses & Permits and Fees & Forfeitures accounted for the smallest percentages of county revenue at 6% and 5%. Miscellaneous Revenues accounted for 8% of the total revenue. Although sales and other taxes are not segregated from this total, it is clear that property tax is by far the primary tax revenue source.

Most of the survey counties derived less than 60% of their revenue from taxes.³⁶ Only four reported that more than 70% of their total revenue came from taxes. Seventeen counties reported that less than 50% of their total revenue came from taxes. What is interesting is that these 17 counties range from the largest county in the survey, Dallas, to one of the smallest, Oldham. Based on Total Revenues, Dallas is more than 298 times as large as Oldham. Yet they report receiving only 46% and 47% respectively of their Total Revenue from taxes.

- a) **Taxes.** Tax revenues include property taxes, general sales and use taxes, and other taxes as described above. For the survey counties, the highest amount of tax revenue as a percent of total revenue reported was 81.3% (Yoakum) and the lowest was 20.5% (Hudspeth).
- i) **Property Taxes for all 254 Counties.** This section will look at property taxes for all 254 counties as collected by the Texas Comptroller of Public Accounts. Data is for tax year 1999.
 - (1) **Total Appraised Value.** The map below shows the ranges of Total Appraised Value for 1999 for Texas counties (Callahan County did not report an appraised value for this period). Notice how the highest values track the population centers and the major highways such as the I-35 corridor. Among all of the Texas counties the greatest Appraised Value was \$165,780,379,230 (Harris) and the smallest was \$97,998,001 (Foard). For the survey counties, the greatest Appraised Value was \$129,459,663,760 (Dallas) and the smallest was \$154,727,405 (Stonewall).

³⁶ This percentage was derived by dividing the county's total operating revenues into the Tax Revenues of the Government Funds Group for each county. The source for a county's operating and Tax Revenues was the survey data submitted by the county on their Combined Statement of Revenues, Expenditures and Changes in Fund Balances form.

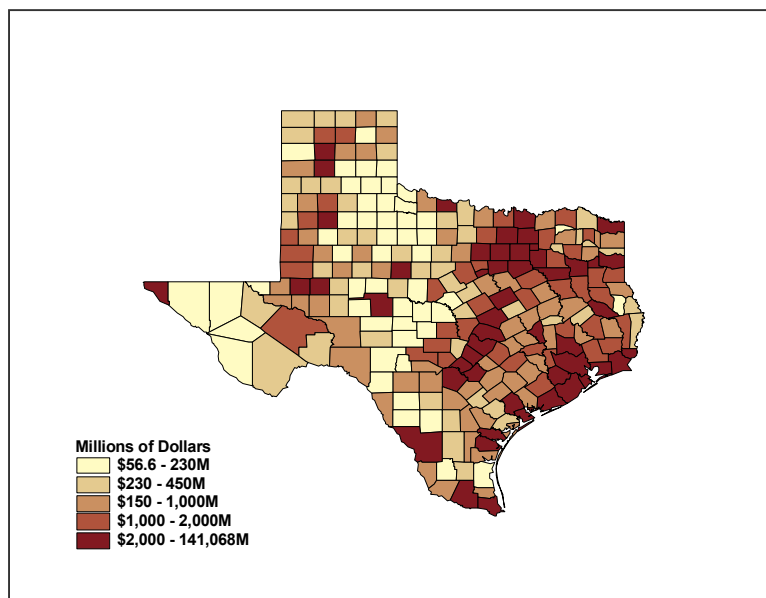
Total Appraised Value 1999



- (2) *Total Taxable Value*. Due to the existence of numerous mandatory and permissive property tax exemptions, not all of this valuation is available for taxation by a county. Total Taxable Value is that amount of Total Appraised Value that may be levied against by a county.

The following map shows the Total Taxable Value for County Tax Purposes. Although the map is very similar in appearance to the Total Appraised Values map, there are some differences. Among all of the Texas counties the greatest Total Taxable Value was \$141,068,098,447 (Harris) and the smallest was \$56,609,347 (Motley). For the survey counties, the greatest Total Taxable Value was \$107,988,487,382 (Dallas) and the smallest was \$96,685,658 (Stonewall).

Total Taxable Value 1999

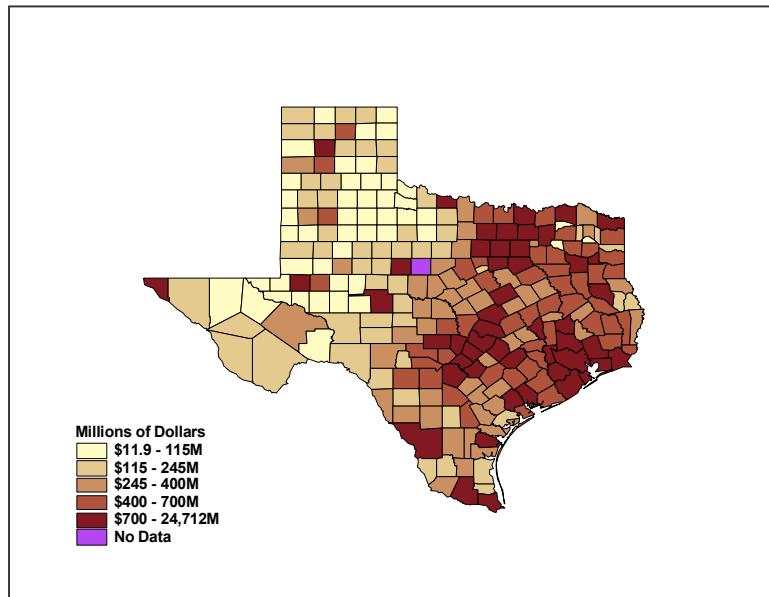


For all Texas counties the Total Taxable Value per Capita ranged from \$1,191,150 (Loving) to a low of \$13,616 (Coryell). Survey county high and low values for Total Taxable Value per Capita were \$134,202 (Yoakum) and \$19,154 (Bee), respectively.

- (3) *Exemptions.* The entire list of exemptions is set out in Exhibit 9 - County Report of Property Value – 1999. The following map shows the amount of exemptions by county. The amounts were determined by subtracting the Total Taxable Value for county tax purposes from the Total Appraised Value. The extreme difference in overall taxable value between counties in Texas is highlighted by the magnitude of the Exempted Taxable Value in the counties of Dallas (included in the survey) and Harris (not included). Dallas County has over \$21 billion exempted value while Harris County has over \$24 billion exempted. Tarrant and Travis were the only other counties with exemptions totaling more than \$10 billion. To put these numbers in perspective you must add together the actual Taxable Value of the smallest 96 counties to exceed the Exempted Value from Dallas County, and accumulate the actual Taxable Value of the smallest 104 counties to exceed the Exempted Value of Harris County.

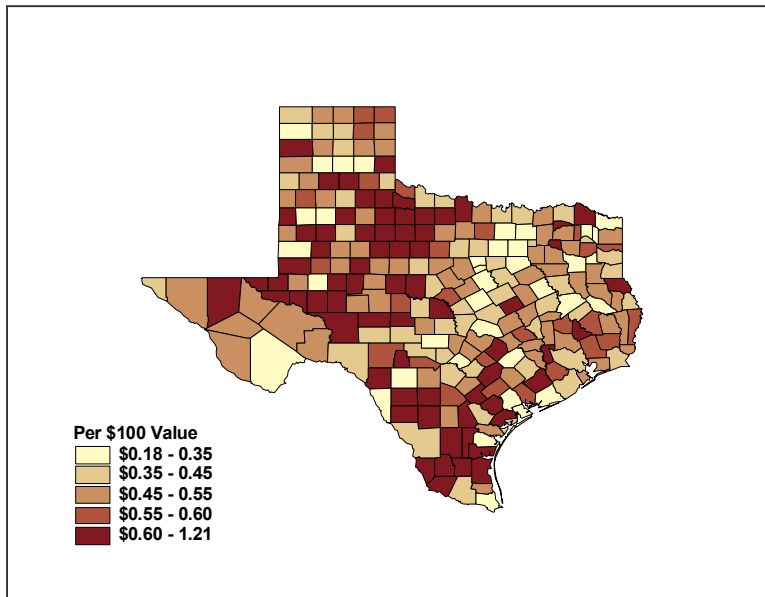
For all Texas counties the Total Exempt Value ranged from \$24,712,280,783 (Harris) to a low of \$11,909,702 (Loving). Survey county high and low values for Total Exempt Value were \$21,471,176,378 (Dallas) and \$38,507,773 (Hall) respectively.

Total County Tax Exemptions 1999



- (4) *County Tax Rates.* The range of total county property tax rates is shown in the map below. The total county tax rate includes the general tax rate, the lateral road/flood control tax rate, and the optional road & bridge tax rate.

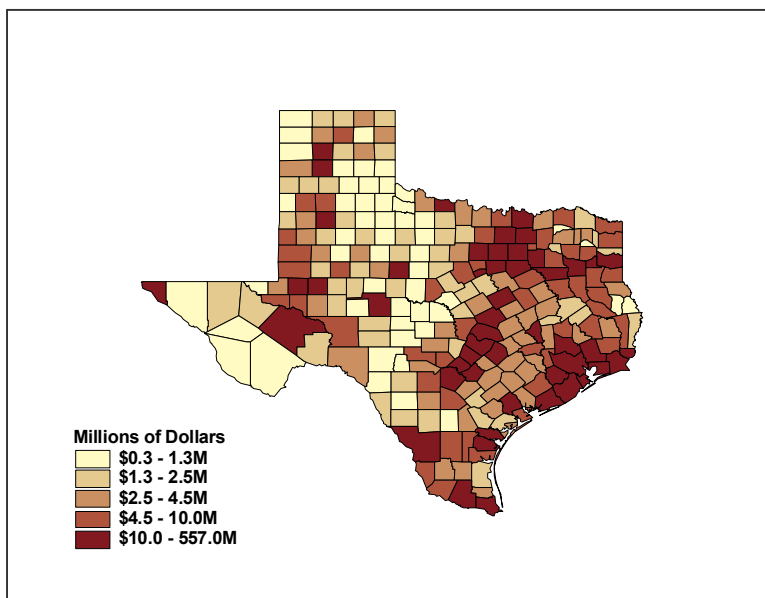
County Tax Rates 1999



Applying the Total Property Tax Rate to the Total Taxable Value results in the Total County Tax Levy. For all Texas counties the Total Tax Rate ranged from \$1.2100 per one hundred dollars value (Jim Hogg) to a low of \$0.1800 (Somervell). The survey counties had a high of \$0.8872 (Collingsworth) and a low of \$0.1917 (Lubbock) per \$100 of property value.

- (5) *County Tax Levy*. The ranges for the Total County Tax Levy for 1999 are shown in the following map.

Total Tax Levy 1999



Loving County had the highest per capita Total Tax Levy of all Texas counties at \$10,065 while Harris County had the largest amount at \$556,979,173. Maverick County had the lowest per capita levy at \$44 and Armstrong County had the lowest amount at \$345,085. For the survey counties the highest per capita Tax Levy was Yoakum at \$738 with Dallas County having the highest amount at \$211,657,435. The lowest survey county per capita levy was Lubbock at \$62 and the lowest levy amount was Stonewall at \$649,989.

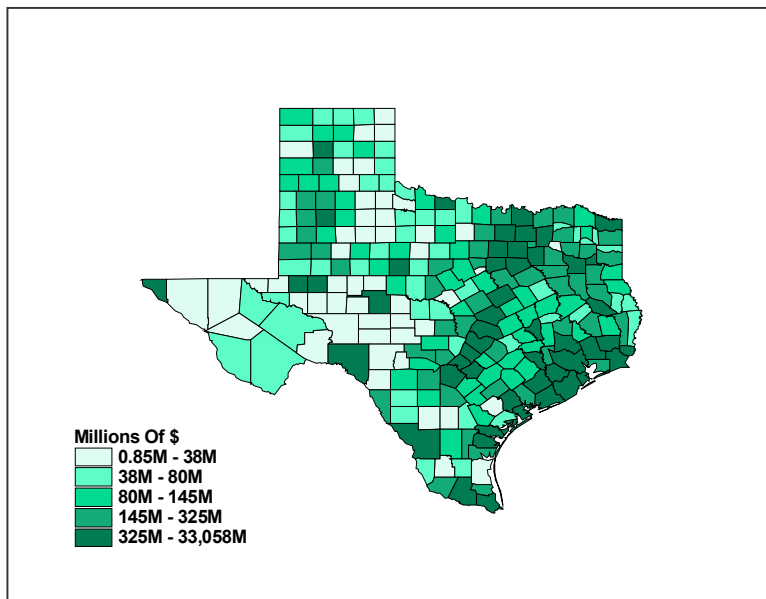
- ii) Property Taxes for the Survey Counties. Analysis of property taxes only, as reported by the counties in the survey, was not performed because of the comprehensive data available at the statewide level from the Comptroller of Public Accounts. See "Taxes" above for information on general tax data collected in this survey.
- b) *Licenses and Permits.* Revenue from Licenses and Permits accounted for up to 26% (Hartley County) of the survey counties' total revenues. Data from 13 of the counties included in this report indicated that Licenses & Permits Revenue accounted for more than 15% of their total revenue. Thirteen others reported less than 5% of their revenue came from Licenses & Permits, not including 7 more that reported no Licenses & Permits Revenue (Callahan, Erath, Hood, Johnson, Llano, Madison and Webb). The low reported by the survey counties was 0.1% (El Paso) and the high was 25.9% (Hartley).

Interestingly, a majority of the fourteen counties which had a high percentage (15% or more) of their revenue from Licenses and Permits are located in or near the Panhandle.

- c) *Intergovernmental Revenues.* All counties receive intergovernmental revenues from other political entities, primarily the state and the federal government. Of the survey counties, 16 received at least 15% of their total revenue from intergovernmental sources. Eight counties received less than 5% of their total revenues from intergovernmental sources. Only one county (Hood) did not report an amount for Intergovernmental Revenues. Of the survey counties, the highest percentage reported was 57.4% (Hudspeth) and the low was 0.8% (Callahan).

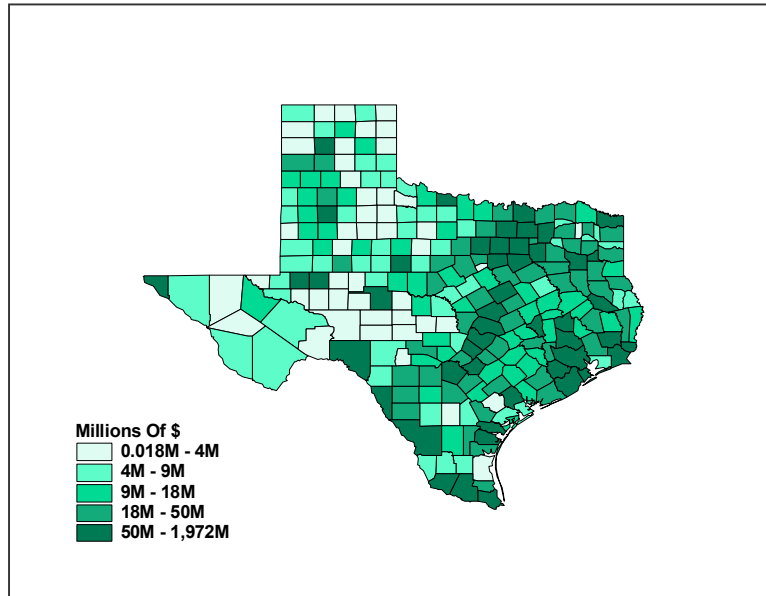
The survey county data generally matches the intergovernmental expenditure data received from the state and federal government. See the maps below.

Intergovernmental Spending - Federal, 1999³⁷



³⁷ U. S. Bureau of the Census. (2000). Consolidated Federal Funds Report - 1999. Available at: <http://www.census.gov/govs/www/cffr99.html>

Intergovernmental Spending - State, 1999³⁸



- d) *Charges for Services.* Charges for Services includes court costs, recording of legal instruments, operation of public utilities, parks and recreation, etc. The fourteen counties which reported receiving at least 15% of their total revenues from Charges for Services are fairly well distributed across the state. Six counties reported no Charges for Services Revenue (Collingsworth, Crosby, Hall, Hartley, Randall and Wilbarger). The survey counties reported a high of 36.0% (Madison) with a low of 0.3% (Sherman).
- e) *Fines and Forfeitures.* Revenue from Fines and Forfeitures was not of great significance to most of the survey counties. Fifty-four of the survey counties received less than 10% of their total revenue from this source including 5 counties that reported no Fines & Forfeitures Revenue (Collingsworth, Erath, Hood, Madison and Runnels). Callahan, Taylor, and Oldham Counties showed a greater dependence with 41.4%, 27.4% and 19.3% of their revenue coming from fines and forfeitures respectively. They were the only counties that received more than 15% of their revenue from fines and forfeitures which includes receipts from penalties imposed for violations of law, bail bond forfeitures, the county's share of drug forfeiture money, etc. The lowest percentage reported was 0.4% (Jack).
- f) *Miscellaneous Revenue.* All of the survey counties reported receiving at least 1% of their revenue from miscellaneous sources. Miscellaneous revenue was the "catch-all" category for items that could not be placed in one of the first five revenue categories. There were three counties that received more than 15% of their revenue from Miscellaneous sources. They were Bee, Comanche, and Panola at 34.7%, 24.4%, and 18.7% respectively. The lowest percentage reported was 1.2% (Presidio).
3. **Ability to Pay.** An accurate determination of the ability of Texas counties to fund their operations is virtually impossible at the present time. Such a determination is dependent upon multiple variables and without established, accepted parameters for analysis, it would be highly subjective. There are, however, certain data which can shed some light on the general financial conditions of counties and their ability to accept additional financial burdens.
- a) *Property Tax Considerations.* Although the "General Fund" tax is limited by the Texas Constitution to a maximum of \$0.80 per \$100.00 of property value and by the 8% roll-

³⁸ Texas Comptroller of Public Accounts. (2000). Texas 1999 State Expenditures by County : Summary Of County Expenditures. (02/00). Available at: <http://www.window.state.tx.us/taxbud/expbyco99/counties/cntysumm.html>

back rate, it is the single-most significant source of county revenue. All other sources of revenue are limited in scope, amount, and other factors.

In addition, the most expedient method for a county to increase its revenues would appear to be through increases in the General Fund tax rate -- at least up to the point where roll-back is reached. The rollback tax rate divides the county's overall tax rate into two separate categories. These are maintenance and operations (M&O) and debt service. A county is allowed to raise the same amount of M&O money raised in the prior year, plus 8-percent. The actual calculation is a bit more complicated and is explained in a guide published by the Comptroller.³⁹

Using the 1999 tax rates, Exhibit 10 shows the various county property tax rates and how increases in the General Fund tax rate up to the "roll-back" rate would effect county revenues.⁴⁰ The latter amounts for each county represent the additional revenue that the county would have raised in 1999 had their General Fund tax rate been increased by 8% to a maximum of \$0.80 per \$100.00 of property value. It should be noted that if a county uses the county sales and use tax, counties must reduce both their effective tax rate and their rollback tax rates to "offset the expected sales tax revenue." This effectively lowers the roll-back trigger to less than 8%.⁴¹

The following tax rate highlights are taken from that Exhibit:

- 7 counties are taxing at the maximum General Fund tax rate
- 32 counties are at 80% or greater of their total General Fund taxing capability.
- 49 counties are within 75% of their maximum
 - all 49 are under 31,000 population
 - only 6 of the 49 are over 15,000 population

Counties that are at or above the Maximum General Fund Tax Rate (.80 cents per \$100 valuation):

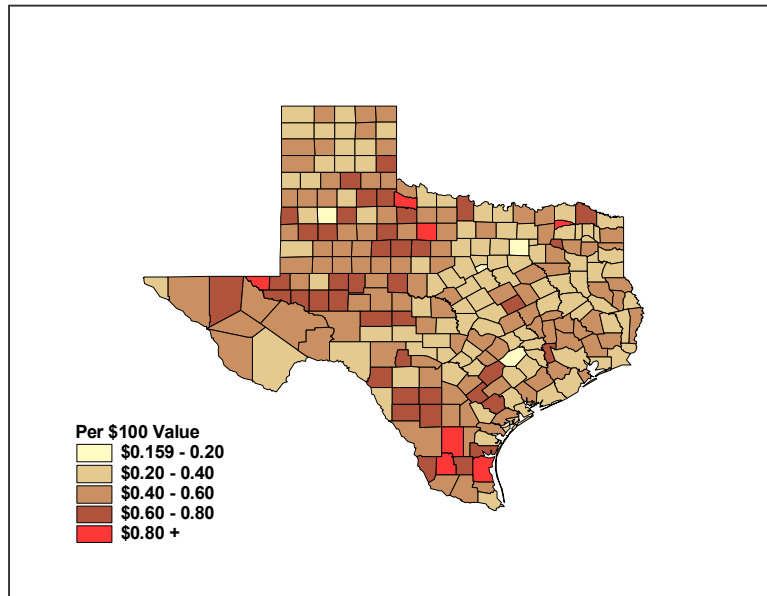
County	General Fund 99	Road & Bridge 99	Lateral Road & Flood Control 99	Total Tax Rate 99
Kenedy	1.01	0.000	0.00000	1.01000
Jim Hogg	0.80	0.150	0.26000	1.21000
Duval	0.80	0.150	0.19911	1.14911
Delta	0.80	0.000	0.25635	1.05635
Throckmorton	0.80	0.150	0.03541	0.98541
Foard	0.80	0.150	0.00000	0.95000
Loving	0.80	0.045	0.00000	0.84500

³⁹ Texas Comptroller of Public Accounts. (May 2000). Truth-in-Taxation. Available online at <http://www.window.state.tx.us/taxinfo/proptax/tnt00/04tnt00.html>

⁴⁰ The CIP used the tax levy data reported by the counties instead of computing it because there were occasional, minor discrepancies between the reported tax levy and the tax levy that would be computed using the reported tax rate and taxable value.

⁴¹ Texas Comptroller of Public Accounts. (May 2000). Truth-in-Taxation. Available online at <http://www.window.state.tx.us/taxinfo/proptax/tnt00/04tnt00.html>

General Funds Tax Rate 1999

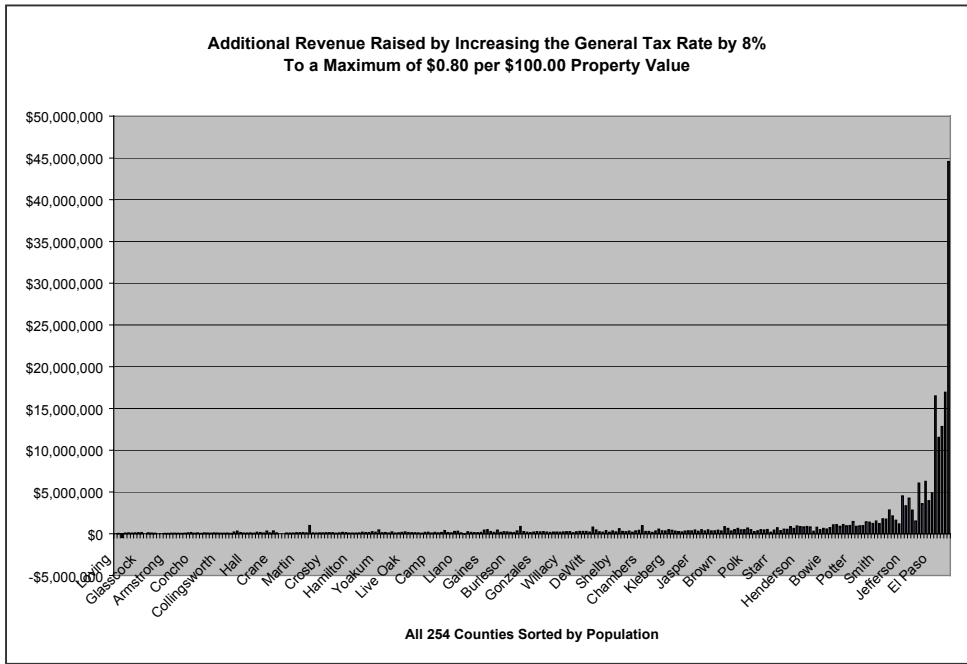


As to counties' ability to generate additional revenues from increases in the General Fund property tax rate without hitting the statutory rollback election point, Exhibit 10 shows that:

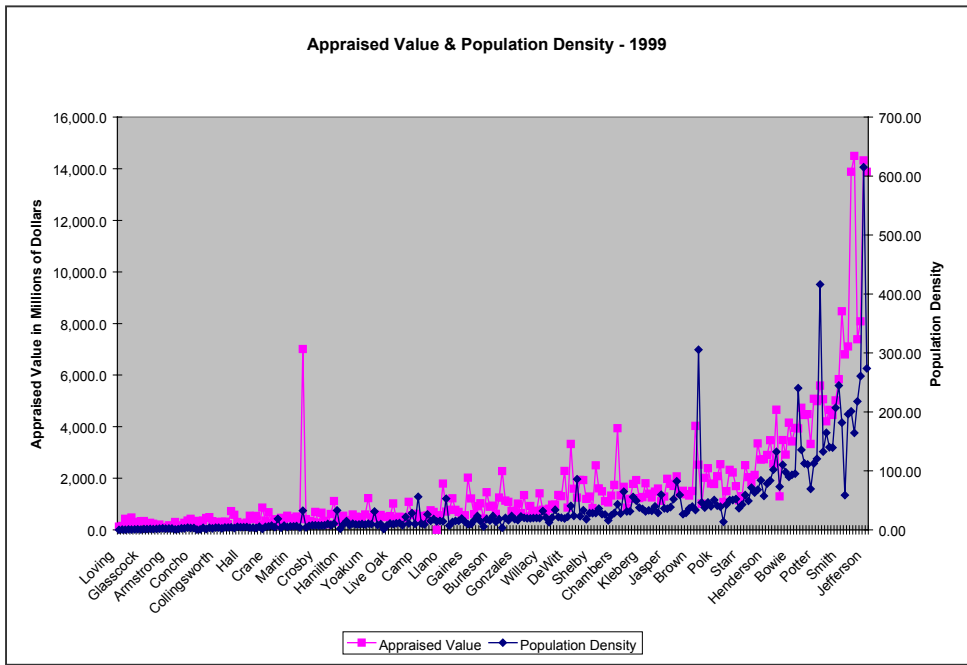
- 8 counties could raise less than \$6,500 without hitting roll back with 7 of the 8 not able to raise any additional General Fund revenues (5 counties would not have been able to raise \$6,500 based on 1998 tax data with 4 of them already at the maximum)⁴²
- 21 counties could raise less than \$ 50,000 (18 counties using 1998 data)
- 65 counties could raise less than \$ 100,000 (60 counties using 1998 data)
- 119 counties could raise less than \$ 200,000 (120 counties using 1998 data)
- 193 counties could raise less than \$ 500,000 (193 counties using 1998 data)
- 224 counties could raise less than \$1,000,000 (223 counties using 1998 data)

The following chart graphically shows the results from that Exhibit. The counties are arranged by estimated 1999 population from lowest on the left (Loving) to highest on the right (Harris).

⁴² Data for 1998 has been included in these bullets for comparison purposes due to the significant decline in oil prices from 1998 to 1999. The Preliminary Report included data from 1998 only.



This raises the question of whether there is a relationship between total appraised value and population. The following graphic compares total appraised value to population density. The graph demonstrates that, with some exceptions, there is a close relationship between total appraised value and population density (estimated population per square mile). Population density may be a factor in the determination of ability to pay.

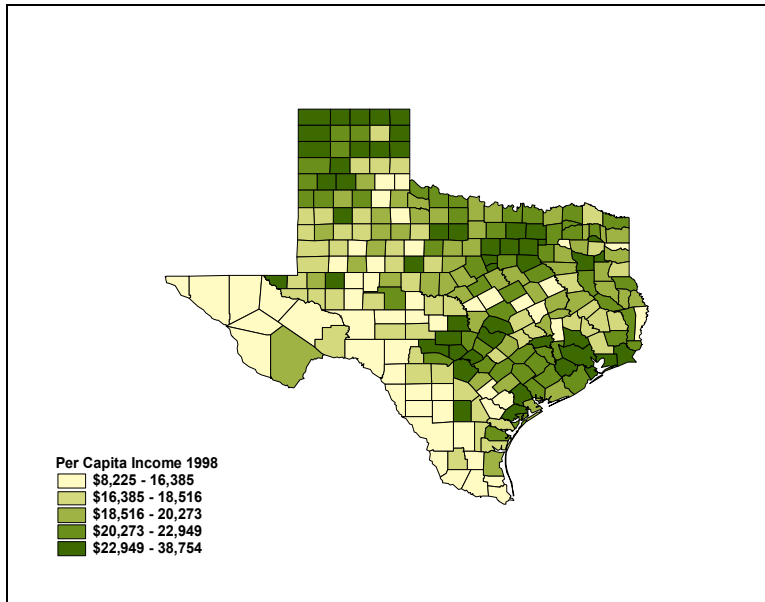


The ability of counties to fund their duties must, to some degree, be influenced by the ability of its citizens to accept increased taxation and fees. The following maps show 1998 per capita income⁴³ for each county and the 1999 Poverty percentages⁴⁴.

⁴³ Bureau of Economic Analysis. [June 15, 2000]. CA1-3, 1969-1998 : Texas. Available at: http://www.bea.doc.gov/bea/regional/reis/ca1_3.htm

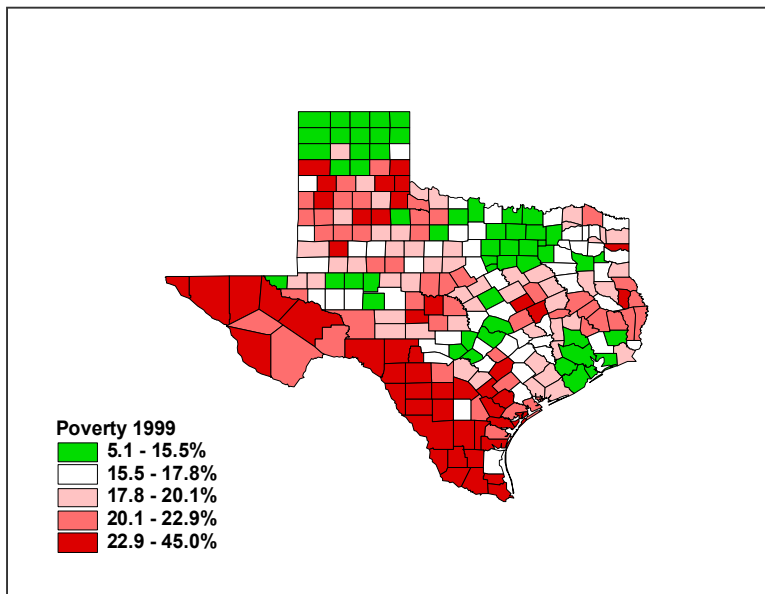
⁴⁴ Research Dept, Texas Health & Human Services Commission. [May 1999]. Estimates of the Texas Population Living Below Poverty in 1999 by County. Available at: http://www.hhsc.state.tx.us/cons_bud/dssi/cntypov99.htm

Per Capita Income - 1998



Per capita income ranged from a high of \$38,754 in Sherman County to a low of \$8,225 in Starr County. Income wealth appears to be concentrated in the northern Panhandle, the Dallas-Fort Worth area, near Houston, and around the Travis County area.

Percent of Population Living in Poverty - 1999

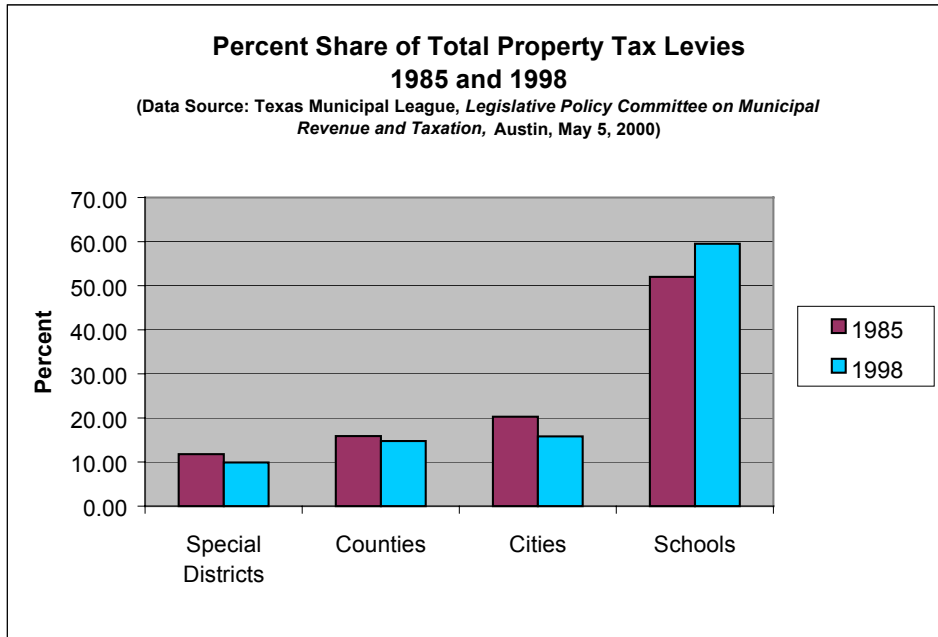


Poverty rates ranged from a high of 45.0% in Starr County to a low of 5.1% in Collin County. (Statewide 16.54% of the total population was living in poverty during 1999.) High poverty rates seemed to concentrate along the Border and four other geographic areas.

Citizens' "acceptance" of additional taxation is further strained by the "competition" among the other taxing entities in the counties. These include numerous special districts, cities, and – the largest consumer of property taxes – school districts, see the following chart. In 1998, school districts' share of the total statewide property tax levy was almost

60%. Cities followed with 15.8% and counties with 14.8%. Special districts levied the remaining 9.9%.

The following chart shows the percent share of the Total Property Tax Levy between political entities for the tax years 1985 and 1998.



4. Number of Counties Relying on Mineral Wealth.

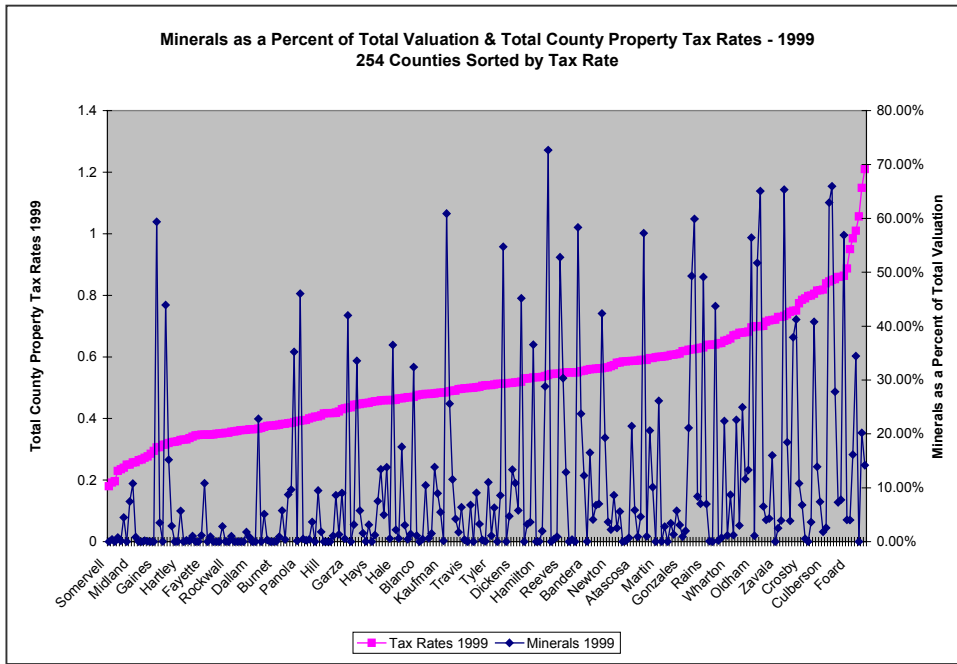
Although, it is accurate to say that a few counties in Texas have a great deal of mineral wealth, for most counties this wealth is only a small fraction of the total valuation of the county and does not appear to have a significant relationship to tax rate. For example, in 1999, of the 25 counties with the lowest total county property tax rates,⁴⁵ only four counties had mineral wealth⁴⁶ that exceeded 10% of their total property value.⁴⁷ In addition, only five of the 50 counties with the lowest total tax rates in 1999 had mineral wealth that was more than 10% of the total property value.

On the other hand, 13 of the 25 counties with the highest total tax rates in 1999 had mineral wealth that was more than 10% of the total property value. Of the 70 counties with total property tax rates of \$0.60 per \$100.00 valuation, or higher, 21 had mineral wealth at more than 20% of the total valuation. What makes this even more striking is that there were only 46 counties in Texas that reported more than 20% of their total property value coming from mineral wealth in 1999. The following chart shows the counties arranged by total county property tax rate. Line two shows percent of total property value attributed to mineral wealth.

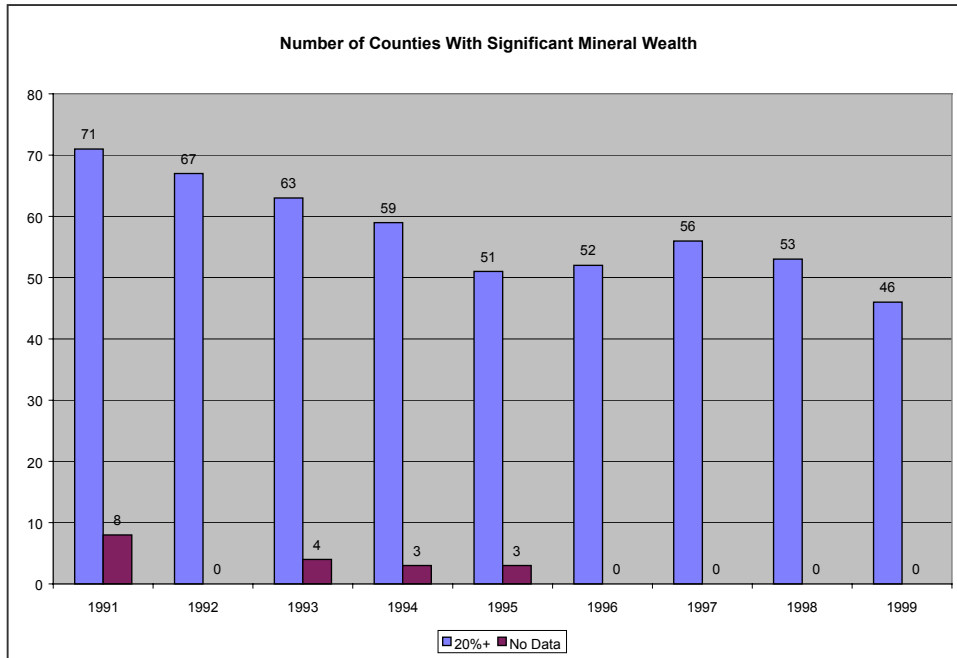
⁴⁵ Sum of the general tax rate, special road and bridge tax rate, and farm-to-market/lateral road tax rate.

⁴⁶ Mineral wealth is taken from: County Report of Property Value. (1991 - 1999). Texas Comptroller of Public Accounts. Total mineral wealth is calculated by determining the sum of the total market value of the following Property Use Categories: Real Minerals - Oil and Gas; Real - Other Mineral Reserves; Real - Non-Producing Minerals.

⁴⁷ Percent of Total Property Valuation is determined by dividing the county's Mineral Wealth (see previous note) by the combined Total Market Value of all Property Use Categories.



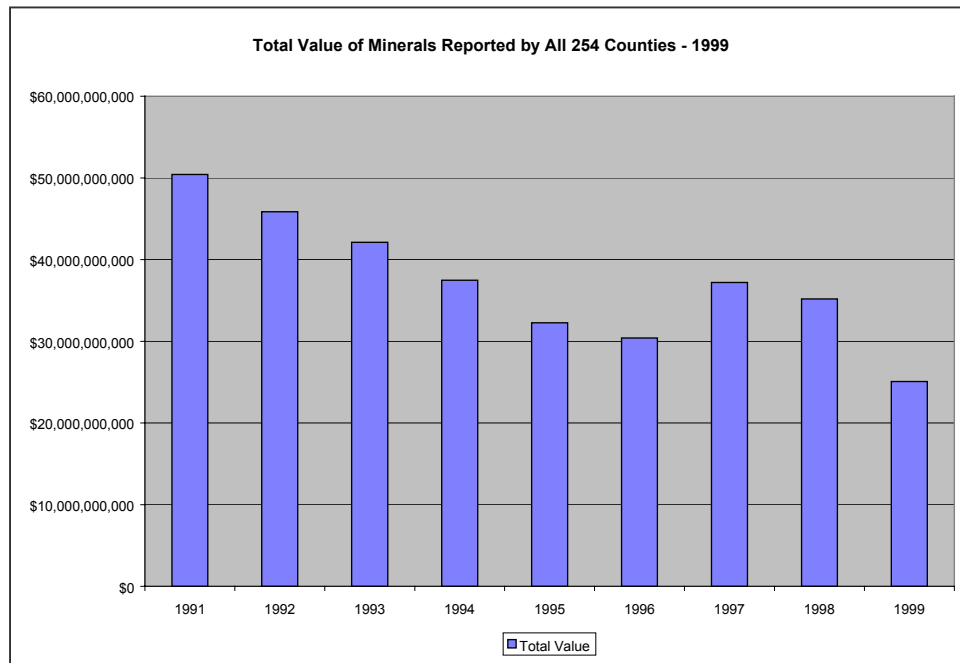
Petroleum prices fluctuate constantly. Therefore it is important to look at more than one year worth of data to avoid introducing a bias based upon abnormally low prices. The year 1998 appears to have been better for petroleum producing counties than 1999 as the price of crude oil stayed relatively high during most of the year. During 1998, there were 54 counties that reported total property tax rates greater than \$0.60 per \$100.00 of valuation. Of these, 15 had mineral wealth that exceeded 20% of the total valuation. Ten of the 25 counties with the highest tax rates, and five of the 25 counties with the lowest tax rates, had mineral wealth that exceeded 20% of their total valuation.



The chart below shows the number of counties that reported at least 20% of their total property valuation coming from mineral wealth by year since 1990. While their numbers did not drop every year, there was an overall decrease of 35% during this period from 71 to 46 counties. Of course, this assumes that none of the eight counties for which no data was available during 1991 were in this category.

If the trend continues at the same pace (-5.43% per year) for the next 10 years, then there will only be 27 counties in Texas reporting at least 20% of their total property valuation resulting from mineral wealth in 2009.

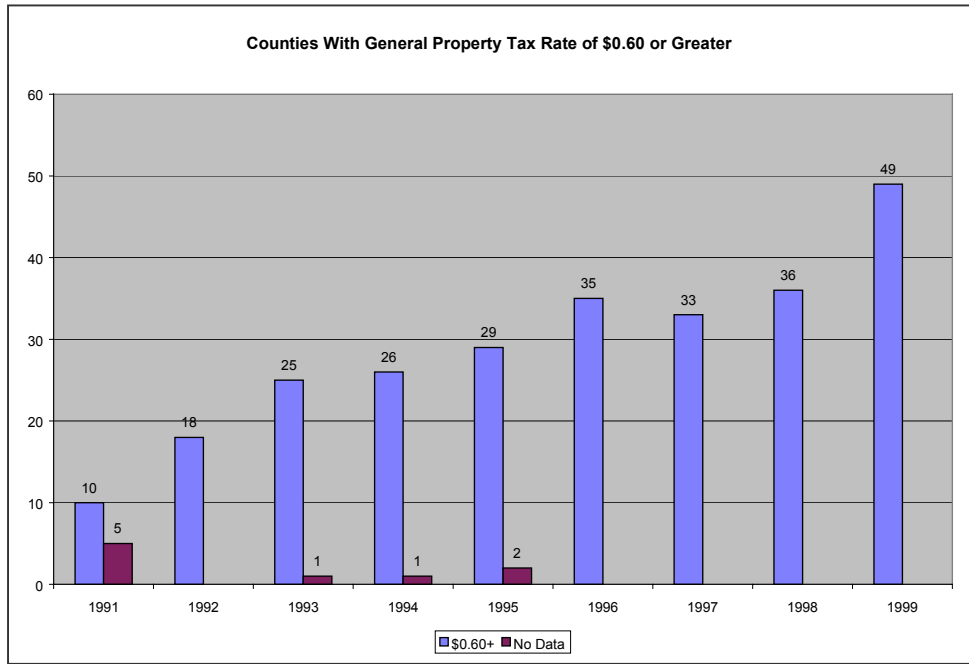
The next chart shows the same general downwards trend for the 1991 - 1998 period. It shows the total amount of mineral value reported by the counties to the Comptroller by year. In 1991 the total amount reported was \$50,421,348,318. By 1999 this amount had decreased by 50% to \$25,076,600,014. These reported valuations are not adjusted for inflation.



Amounts	1991	1992	1993	1994	1995	1996	1997	1998	1999
< \$100,000	39	41	47	45	43	42	45	44	45
> \$100,000,000	104	101	92	87	80	84	89	89	75

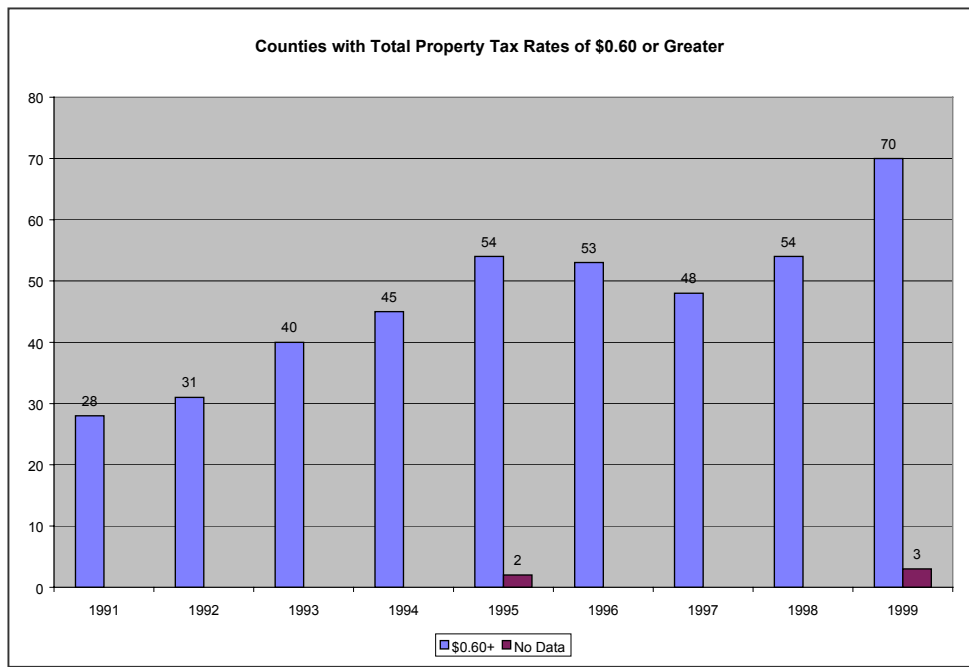
The preceding table shows that the number of counties with mineral wealth of \$100 million or more decreased from 104 to 75 from 1991 to 1999. Meanwhile the number of counties with mineral wealth of \$100,000 or less increased from 39 to 45.

5. Trends in County Property Tax Rates. In the previous section this report looked at trends in county mineral wealth over the period 1991 to 1999 while briefly raising the issue of property tax rates. This section will look at the trend in county property tax rates for the same period.



The chart above tracks the number of counties that reported a General Property Tax Rate of \$0.60 per \$100.00 valuation or higher. As in other sections of this report, \$0.60 was chosen as a cut-off as it represents an amount that is three-fourths of the maximum allowed by the state constitution. Interestingly, the number of counties at or above \$0.60 increased dramatically during this period.

The next chart shows the number of counties whose total property tax rates were at least \$0.60 during the same period. Interestingly, of the 70 counties that reported total property tax rates of at least \$0.60 for 1999, there were 35 counties that lost population and 35 counties that added population since 1991 (-11,500 and +61,421 respectively). Meanwhile the number of Texans living in counties with high county property tax rates increased from 261,162 in 1991 (28 counties) to 713,735 in 1999 (70 counties). These numbers equate to 1.50% and 3.56% respectively of the state population.



6. **Conclusions.** Although no definitive answer to the Committee's charge can be provided at this time, it is apparent that a significant number of counties have a limited ability to fund additional duties through the General Fund tax. At least 8 counties are essentially "tapped out." This condition is more visible in the less populous counties, but it must be remembered that the larger counties have more people and more infrastructure to deal with.

The ability to pay, therefore, must take into consideration many variables that were unable to be addressed in this report. Until acceptable data and evaluation criteria are developed, this issue will go largely unresolved.

VI. GLOSSARY

Appraised Value: Total Appraised Value for county purposes is defined as the total maximum taxable value in a particular county before applying the various exemptions available in the county.

The value is as provided by the Texas Property Tax Code 2000 Edition, Chapter 23.

Assessed Value: Another term for Appraised Value.

Chart Of Accounts: In this report refers to a list of financial codes related to an organization's accounting system. The codes are primarily oriented toward identifying the "where" of an expense or revenue transaction by relating the transaction to the appropriate organizational element such as a section or project.

Cost Allocation (Cost Accounting): In this report refers to a process related to an organization's accounting system. The process is primarily oriented toward distributing associated expenses to the "cause" of the expense when the cost has been indirectly charged somewhere else. An example of this process would be the distributing of the rent of a building to the departments using the space based on the square footage occupied in the building.

County Tax Levy: The amount of a county's Total Tax Levy is the county's Total Taxable Value multiplied by the county's Total County Tax Rate.

County Tax Rate: The Total Tax Rate for a particular county is defined as the combination of the following tax rates:

Tax rate for farm-to-market / flood control

Maintenance & Operations Tax Rate plus the Interest & Sinking Fund Tax Rate

Tax rate for General Fund

Maintenance & Operations Tax Rate plus the Interest & Sinking Fund Tax Rate

Tax rate for Special Road & Bridge Fund

Maintenance & Operations Tax Rate plus the Interest & Sinking Fund Tax Rate

Seawall Tax (only for counties along the Gulf Coast)

Limited only by statute to fifty cents per \$100 valuation

Effective Tax Rate: Calculating the effective tax rate uses the prior year's taxes (less Tax on property lost this year) and the taxable value in the current year for property taxed in the prior year. Dividing the taxes by the value (and multiplying by 100 to convert to a rate per \$100 of value) gives the effective tax rate.

Exempt Value: Total Exempt Value for purposes of this report is defined as Total Appraised Value less Total Taxable Value. Total Exempt Value includes all taxable value lost to the various tax exemptions applied by a particular county which many vary from county to county.

Expenditures (Major Expenditure Categories): For purposes of this analysis major expenditures are considered to be normal operating decreases in the net assets of funds in the Government Funds Group from items that include:

- General Government
- Administration of Justice
- Public Safety
- Public Works
- Public Health and Welfare

Excluded in order to more uniformly compare counties were items that include:

- Culture, Recreation and Education
- Resource Development
- Debt Service
- Intergovernmental
- Capital Outlay

Non-operating items such as Amortization of Capital Leases and Transfers Out are excluded from expenditures for the analysis.

E-Mail: E-mail is a form of electronic communication using World-Wide-Web(WWW)/Internet capabilities. E-mail allows notes, documents and other types of electronic files to be sent from one e-mail account to another account greatly facilitating contact between individuals and organizations.

Generally Accepted Accounting Principles (GAAP): Standards and guidelines for financial accounting and reporting governing the form and content of the financial statements of an entity. The Governmental Accounting Standards Board (GASB) is the primary authority on the application of GAAP to local governments.

Governmental Fund Types: Government funds are those funds that focus on the control of the normal operation of a governmental entity. GAAP currently defines four governmental fund types – General, Special Revenue, Debt Service and Capital Projects.

- General – The General Fund normally functions as the primary operating fund for local governments. A significant portion of a local government's operations are normally accounted for in this fund.
- Special Revenue – Special Revenue funds are used to control the proceeds of specific revenue sources that are legally restricted to be expended for specific purposes such as Road and Bridge funds.
- Debt Service – Debt Service funds are established to control the accumulation of resources for the payment of general long-term debt principal and interest.
- Capital Projects – Capital Project funds are established to control financial resources to be used for the acquisition or construction of major capital facilities.

Mean or Average Value: This value is determined by summing a set of numbers and dividing the sum by the number of entries in the set of numbers. Very large or very small numbers at the high or low ends of the range of numbers may produce an average that is not very representative of the majority of values in the set of numbers.

Median Value: This value for a set of numbers is determined by finding the number for which ½ of the values of the set are greater than the number and ½ of the values are less than the number.

Object Of Expense/Revenue Classification: In this report refers to a list of financial codes related to an organization's accounting system. The codes are primarily oriented toward the "what" of an expense or revenue transaction by relating the transaction to the appropriate type of expense or revenue such as payroll, travel or supplies.

Population (Est. 1999): The source of the County Population data used in this analysis is a published report prepared by the Texas State Data Center at Texas A & M University. The data is the estimated county population for January 01, 1999.

Revenues: For purposes of this analysis revenues are considered to be normal operating increases in the net assets of funds in the Government Funds Group from major areas that include:

- Tax Revenues
- Licenses and Permits
- Intergovernmental Revenues

- Charges for Services
- Fines and Forfeitures
- Miscellaneous Revenues

Non-operating items such as long-term Debt Proceeds and Transfers In are excluded from the analysis.

Rollback Tax Rate: The rollback rate calculation splits the rate into two separate components – a maintenance and operations rate and a debt rate.

Calculating an effective tax rate does not require the taxing unit to distinguish between M&O and debt expenses. The rollback tax rate, however, is the sum of the debt and the M&O. In most cases, the rollback tax rate exceeds the effective tax rate. Occasionally, however, decreases in a taxing unit's debt create situations where the effective rate might be higher than the rollback rate.

The M&O portion of the rollback tax rate is the tax rate that would be needed to raise 8 percent more operating funds than the unit (other than a school district) levied in the preceding year. This calculation is similar to the effective rate calculation.

The **debt rate portion** is the tax rate that will be needed to pay the unit's debt payments in the coming year. This part of the calculation does not depend on the prior year's debt taxes at all; it simply considers what the unit will actually need for the current year. The portion of the overall rate used to retire debt may rise as high as necessary without triggering the threat of a rollback. The M&O portion, however, may rise only 8 percent (or \$0.06 for most school districts).

M&O component. For taxing units (other than school districts) to calculate the M&O rate (see Table 3 below), begin with the adjusted 1999 total taxable value used to calculate the effective tax rate. Multiplying that value by the 1999 M&O rate gives the adjusted 1999 M&O taxes. Dividing the adjusted M&O taxes by the adjusted 2000 taxable value used to calculate the effective tax rate yields the "effective M&O rate."

Taxable Value: Total Taxable Value for county purposes is defined as the Total Appraised Value less those exemptions mandated by the State or allowed by the County such as:

- Value lost to local optional percentage homestead exemptions
- Value lost to water conservation initiative exemptions
- Value lost to state-mandated \$3000 exemption on farm-to-market/flood control
- Value lost to disabled or deceased veteran's survivor(s) exemptions
- Value lost to Historical and other deductions