

## The County Information Project

### **Texas Local Government Finances:** A Study by the County Information Project Texas Association of Counties

In response to a request for information from the Texas Association of Counties' Governmental Relations Department, The County Information Project (CIP) prepared a number of graphs and maps showing trends in local government financing. The CIP took a preliminary look at a number of subject areas including property and sales taxes as well as bond ratings. The review covered different governmental entities including both counties and school districts starting with a look at property taxes. However, it should be noted that, due to limited time and resources, this report raises as many or more questions than it answers.

In Texas, counties have various property taxes which can be imposed in order to raise revenue. They are described below.

- “General Fund” Tax. Imposed by all 254 counties. Limited to \$0.80 per \$100.00 assessed valuation.<sup>1</sup> Revenue from this tax may be used for any authorized county purpose.
- Special Road and Bridge Tax. An optional tax imposed by many though not all counties. Limited to \$0.15 per \$100.00 assessed valuation.<sup>2</sup> Revenue from this tax may only be used for maintaining roads and bridges. In 2002, 75 counties reportedly collected this tax, down from 82 counties in 1999.
- Farm-to-Market and Flood Control Tax. An optional tax imposed by many though not all counties. Limited to \$0.30 per \$100.00 assessed valuation.<sup>3</sup> Revenue from this tax may only be used 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 2002, 116 counties reportedly collected this tax, down from 120 counties in 1999.
- “Seawall” Tax. An optional tax that may be imposed by counties along the Gulf Coast. Limited to \$0.50 per \$100.00 assessed valuation.<sup>4</sup> Revenue from this tax may only be used for construction and maintenance of seawalls, breakwaters, or for sanitary purposes. It is unknown how many counties impose this tax.
- Other Property Taxes. Counties are authorized by several statutes to levy certain special purpose taxes. However, these taxes when combined with the General Fund tax may not total more than \$0.80 per \$100.00 assessed valuation. That makes these taxes General Fund taxes that are designated for special purposes.

A previous study by the CIP indicates that property taxes account for just over 50% of the average counties total revenue while no other source accounts for more than 15% of Texas counties' revenue stream.<sup>5</sup> Since the General Fund Tax is the only property tax

---

<sup>1</sup> TEX. CONST. art. VIII, § 9.

<sup>2</sup> TEX. CONST. art. VIII, § 9; TEX. REV. CIV. STAT. ANN. art. 6702-1, § 4.03.

<sup>3</sup> TEX. CONST. art. VIII, § 1-a; TEX. REV. CIV. STAT. ANN. art. 6702-1, § 4.103.

<sup>4</sup> TEX. CONST. art. XI, § 7; TEX. REV. CIV. STAT. ANN. art. 6830.

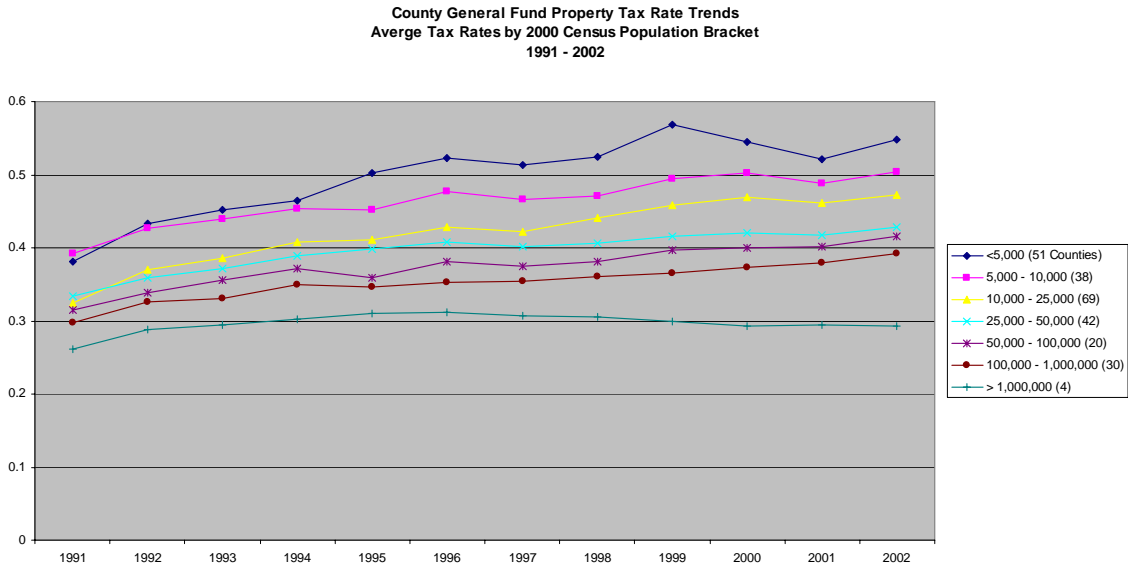
<sup>5</sup> The County Information Project, *Report on Interim Charge Number 1 to the House Committee on County Affairs, 77th Legislature* (Austin, TX: Texas Association of Counties, 2000).

## The County Information Project

that is not limited in how it can be spent, this review will concentrate upon it as the primary source of property tax revenue for the counties.

Chart 1 on the next page looks at trends in the average (mean) General Fund Tax rate<sup>6</sup> for counties within certain population brackets based upon the 2000 Census. The legend includes the number of counties found in each bracket. Unfortunately the 2003 tax rates are not available at this time so the graph begins with 1991 and ends with 2002 rates.

Chart 1



The chart shows a distinct upwards trend in all population brackets except for those counties over a million population. That trend is most apparent in the smallest population brackets where 51 counties whose 2000 population was less than 5,000 suffered a cumulative 43.9% increase in their average General Fund Tax rate over the 11 year period shown. This is not a problem that afflicted only the smallest counties as during the same period 30 counties with populations between 100,000 and 1,000,000 went through a 31.8% increase in their average General Fund Tax rate.

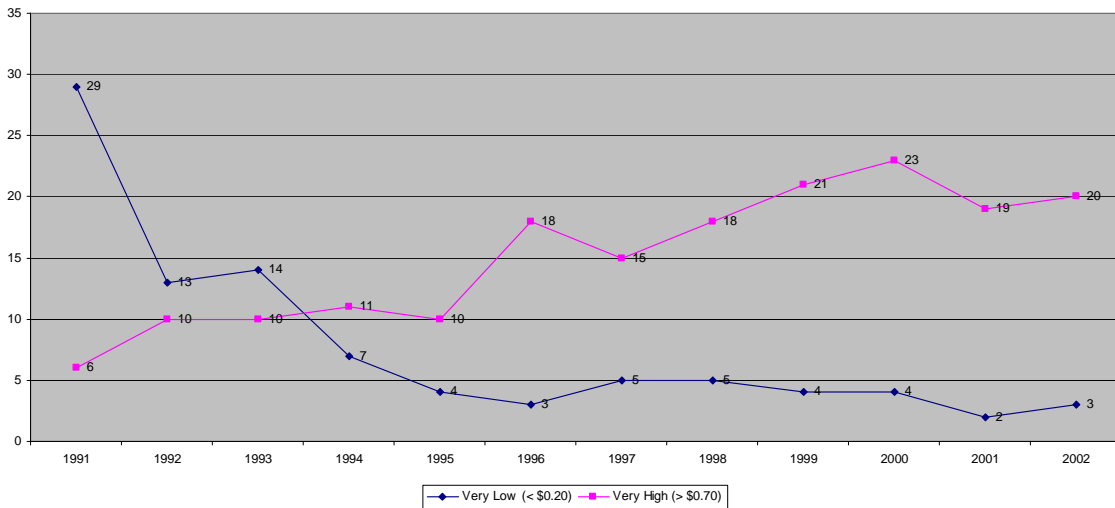
The next chart looks at the number of counties at the edges. The pink line shows the number of counties with very low General Fund Tax rates (<\$0.20 per \$100.00 valuation). The blue line shows those with very high General Fund Tax rates (>\$0.70 per \$100.00 valuation).

<sup>6</sup> Unless otherwise stated all tax data comes from the Comptroller of Public Accounts.

# The County Information Project

## Chart 2

Number of Counties with Very Low or Very High General Fund Property Tax Rates  
1991 - 2002



An increase in a county’s General Fund Tax rate can occur for several reasons. Either the tax base does not keep pace with inflation or there are additional expenditures. While it is beyond the scope of this report to investigate county expenditures, it is possible to look at total values in the counties. The following table shows how taxable values have changed from 1991 to 2002.

### Table 1

Population	Taxable Value <sup>7</sup>	Total Value <sup>8</sup>
<5,000 (51/51) <sup>9</sup>	-15.76%	-11.18%
5,000 - 10,000 (38/35)	-6.48%	2.28%
10,000 - 25,000 (69/68)	-2.47%	1.62%
25,000 - 50,000 (42/41)	22.05%	21.86%
50,000 - 100,000 (20/20)	41.75%	42.25%
100,000 - 1,000,000 (30/29)	46.34%	47.75%
> 1,000,000 (4/4)	31.43%	33.73%

<sup>7</sup> Average change in “Total taxable value for county tax purposes” (adjusted for inflation).

<sup>8</sup> Average change in “Total market value before the 10% cap on residential homesteads is applied” (adjusted for inflation).

<sup>9</sup> Total Value data for six counties is not available for 1991. The first number in parenthesis in the population column shows the number of counties for which Taxable Value data is available, the second shows the number for which Total Value is available.

## The County Information Project

The preceding table offers some surprises. An overall decline in taxable property values may offer a partial explanation for the increase in some county tax rates. Except that one would then expect a corresponding decline in the tax rates for some of the larger counties particularly those with populations between 100,000 and 1 million that had a 46.3% increase in taxable value during the same period their General Fund Tax rate increased 31.8%.

Perhaps the difference lies in the population growths sustained by certain counties during the period. The next two charts attempt to compensate for changing populations with a look at how Counties' Total Market Value (before 10% cap on residential homesteads is applied) and their General Fund Tax Levy have changed over the same period per capita. Chart 3 shows the per capita levies for 253 counties from 1991 to 2002. Loving County was left out because their per capita levy is so high that it makes it almost impossible to see the changes in the other population brackets when it is included.<sup>10</sup>

Chart 3

General Fund Per Capita Levy Trends by Population Bracket  
Without Loving County  
In Constant 1991 Dollars

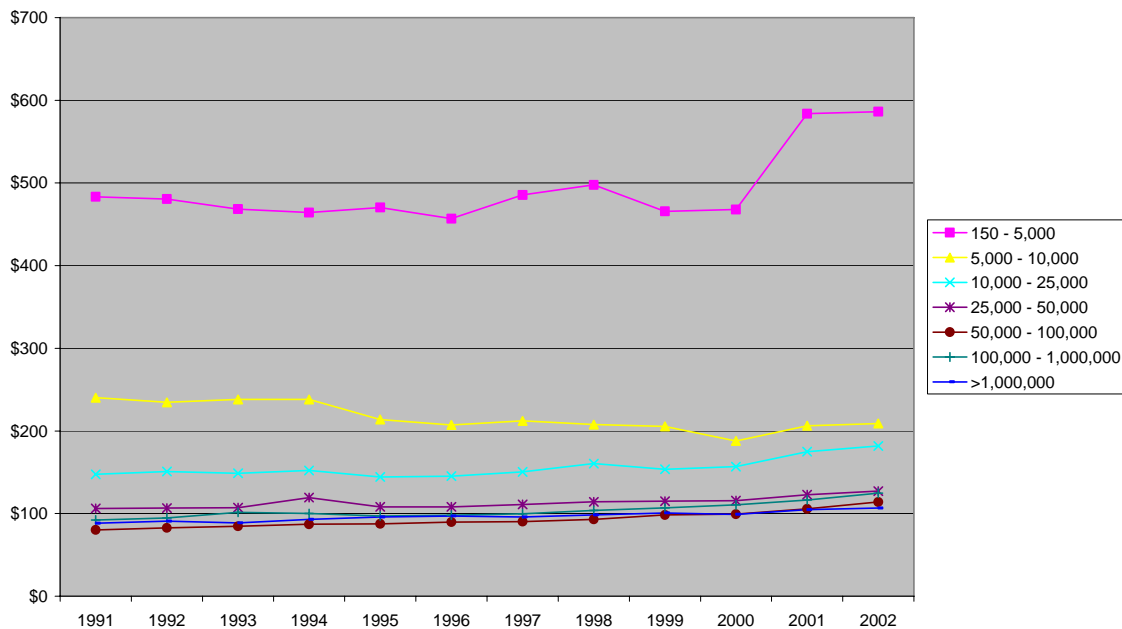


Chart 4 looks at the per capita Total Market Value for all 254 counties. Loving County was left in since including it actually only causes a very small decrease in the average Total Market Value for those counties under 5,000 population in the 2000 Census.

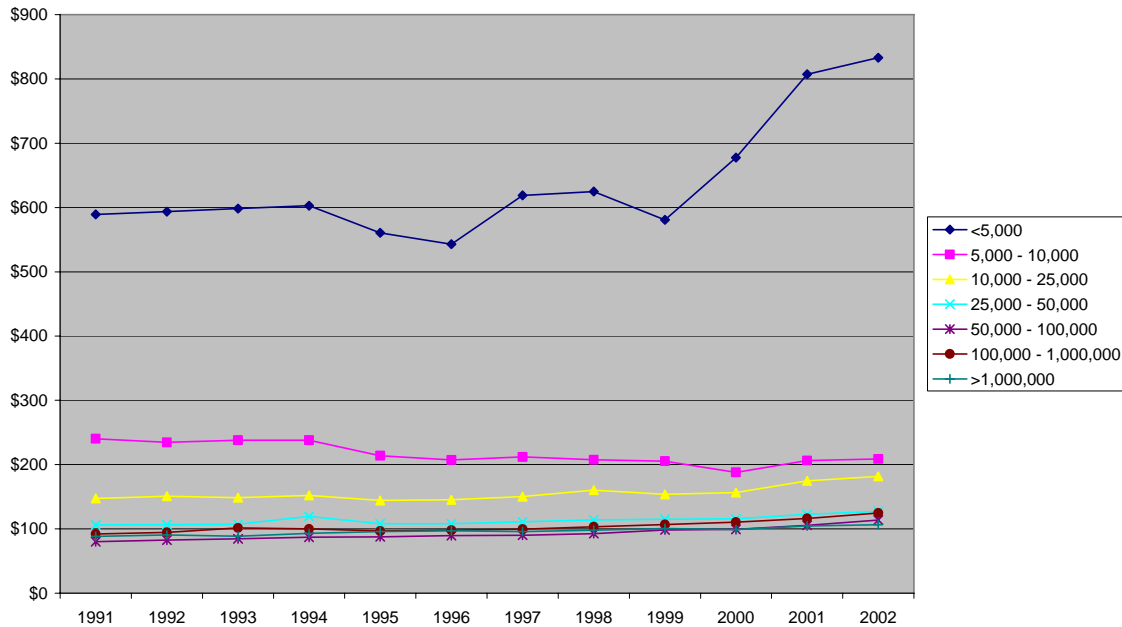
<sup>10</sup> Loving Counties Per Capita General Fund Tax Levy fluctuates from a low of \$5,033 in 1996 to a high of \$13,651 in 2002.

## The County Information Project

Interestingly, all of the population brackets but one showed an increase in both their General Fund Per Capita Levy and their Per Capita Total Market Value. This would seem to be a strong indication that neither declining property values nor changing population levels are directly responsible for the increasing General Fund Tax rates from 1991 to 2002.

Chart 4

### Per Capita Total Market Value For all 254 Counties In Constant 1991 Dollars



### City and County Property Tax Rates

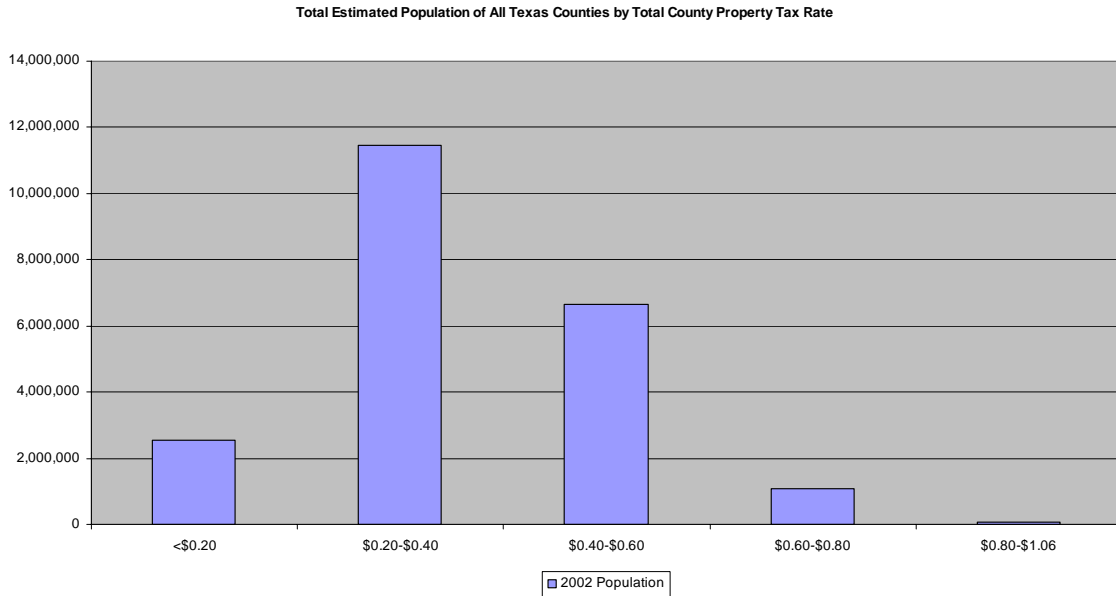
Unfortunately there is no simple means of obtaining the boundaries of cities in Texas which affects how the data can be presented (the lack will be more apparent as the reader gets into later sections). Comparisons between the tax rates imposed by cities and counties are presented in the next two charts. They take a look at the number of people impacted by various tax rate brackets in 2002.

Chart 5 takes a look at what total county property tax rate was imposed on all Texas citizens (General Fund Tax rate + Special Road & Bridge Tax rate + Farm-to-Market and Flood Control Tax) during 2002. It does not include property taxes from cities, school districts, or special districts. From this chart, it can be seen that in 2002 over half of the population of Texas (52.5% or 11,443,704 citizens) lived in counties where the Total County Tax Rate was between \$0.20 and \$0.40 per \$100.00 assessed value.

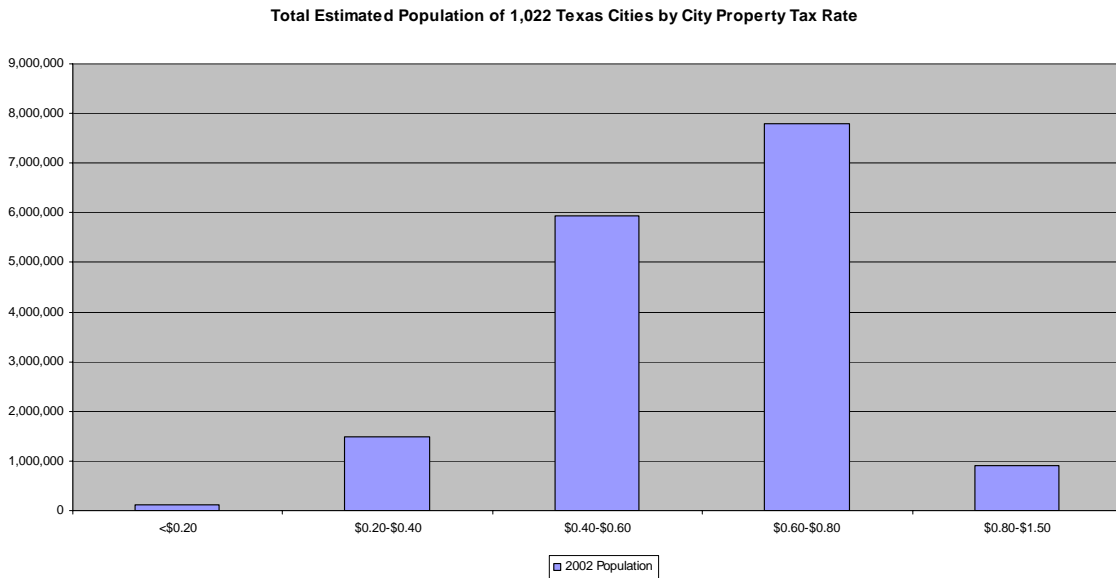
## The County Information Project

Conversely, Chart 6 looks at the total city property tax rate imposed in 2002.<sup>11</sup> Here it can be seen that over 13.7 million people (63.1% of all Texans) live in Texas cities that impose property tax rates of \$0.40 to \$0.80 per \$100.00 assessed value.

### Chart 5



### Chart 6



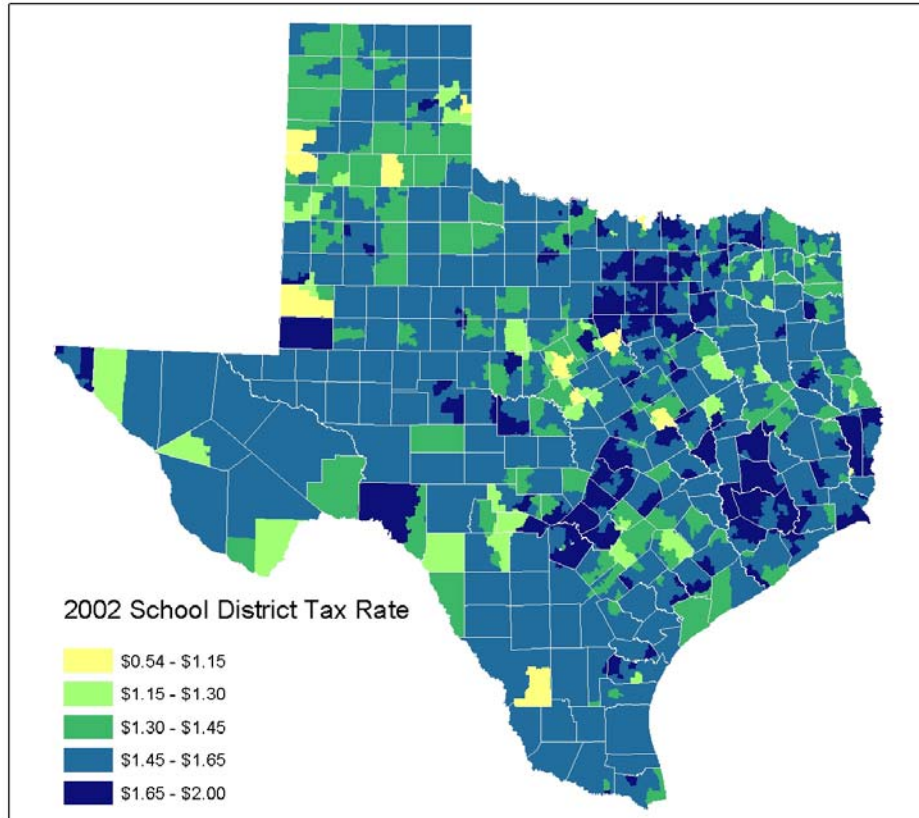
<sup>11</sup> Due to file differences between the Texas Comptroller of Public Accounts and the U.S. Census Bureau, this chart includes only 1,022 cities.

## The County Information Project

### County and School District Tax Rates

Unlike the situation with cities, it is possible to obtain the boundaries for school districts. Map 1 has the 2002 property tax rates for school districts.

Map 1



Individual school district boundaries are not shown, although county boundaries are shown on this map. (A single section of the map in one color may actually contain several school districts.)

While we were unable to pull exact population counts for the school districts, a quick look reveals that most of the state is subject to tax rates of \$1.45 or higher.

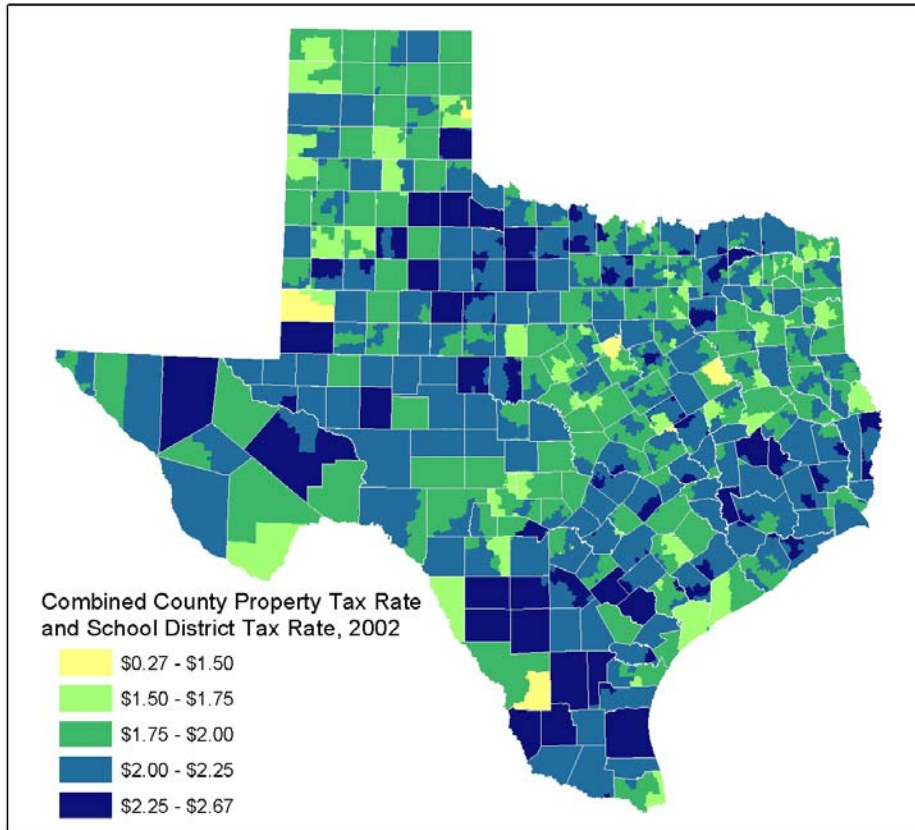
Our next map, Map 2, looks at the combined county and school district tax rates for 2002. In other words, we merged the layers adding the school district rates to the county property tax rates. As before, the school district boundaries were left off although the county boundaries are shown.

This produced a more finely detailed view of the state as seen below. Unfortunately, it is not possible to merge city or special district data with county and school district data since neither city nor special district boundaries are available.

## The County Information Project

One of the more interesting aspects to Map 2 is that there does not seem to be a strong correlation between county population and combined tax rates. The Dallas/Fort Worth area, for example, tends towards the middle of the range while both the Austin and Houston areas tend towards the second highest bracket.

Map 2



A more interesting map would have shown the combined per capita levy for counties and school districts. Unfortunately, while the levy data is available, the population data is not.

### County Sales Tax Rates

In addition to looking at property tax rates, this report takes a quick look at county sales taxes. Counties may adopt a County Sales and Use Tax<sup>12</sup> if:

- No part of the county would be subject to a “Sales and Use” tax rate of greater than 2% at any location when the county’s tax rate is combined to the tax rates of all other entities having taxing authority at that location.
- No part of the county is covered by certain transit authorities.

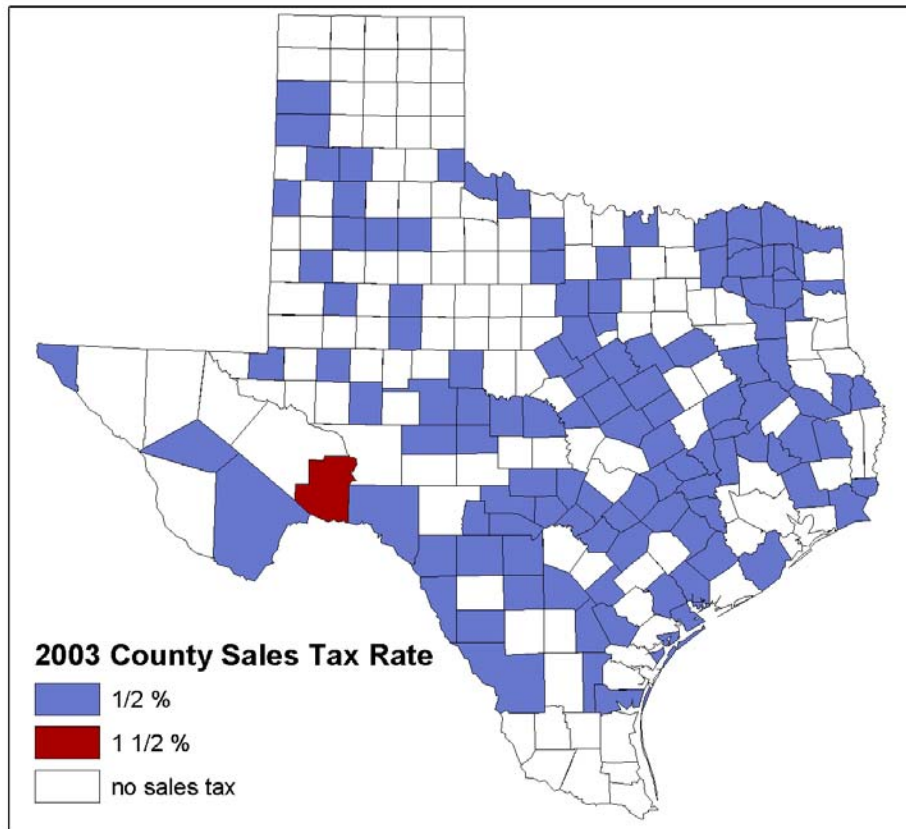
---

<sup>12</sup> Tax Code, Chapter 323.

## The County Information Project

Map 3 shows those counties that have a County Sales and Use Tax as of November 2003. It is important to note that counties that impose a county sales tax must lower their property tax rates to offset the additional revenue raised by the sales and use tax.<sup>13</sup> As with property taxes, it is not possible to map the cities and special districts without their boundary layers. However, as Chart 7 shows, it is possible to graph the trends in total sales tax collected over an extended period.

Map 3

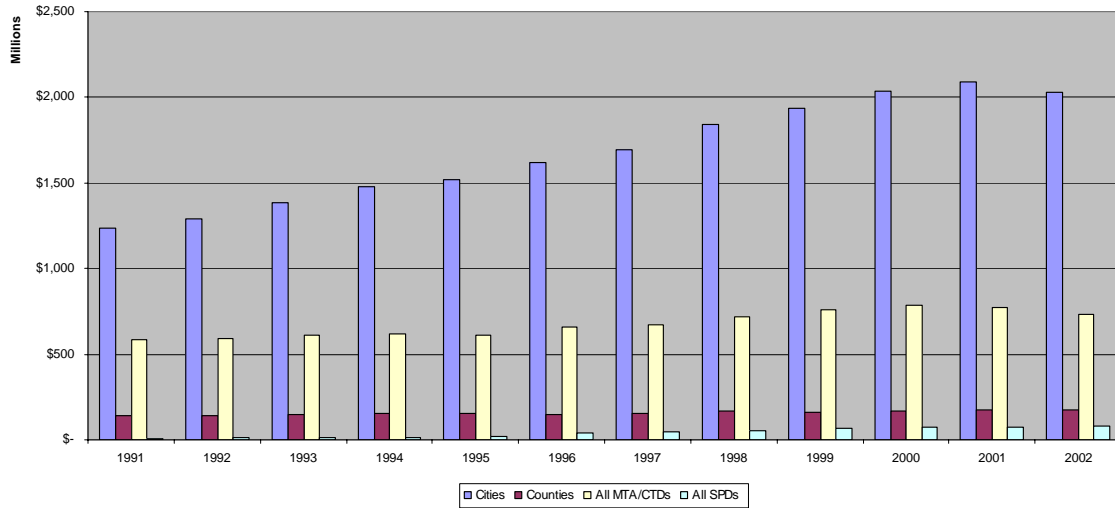


<sup>13</sup> Texas Comptroller of Public Accounts. *Truth-in-Taxation : A Guide to Setting Tax Rates*. Austin, TX: 2003, p. 29. Available in electronic format at: <http://www.window.state.tx.us/taxinfo/proptax/tnt03/96-312.pdf>.

# The County Information Project

## Chart 7

Total Sales Tax Collected by Governmental Entity Type  
Using Constant 1991 Dollars



While the chart uses constant 1991 dollars to eliminate increases or decreases due to inflation, it is important to note both that the amounts are not per capita and that the number of taxing entities changes over time. For example, there were 105 counties that had a county sales tax by the end of 1991 with a combined population of 4.7 million. By December 2002 there were 121 counties collecting taxes with a combined population of 4.9 million. There has been an even greater growth in the number of cities with additional sales taxes.

At the end of 1991 there were 170 cities collecting city sales taxes, by the end of 2002 that number had grown to 653. The number of people living in cities that collected city sales taxes increased fourfold from just over 2 million in 1991 to more than 8.8 million in 2002.

### Table 2

Population (Est.)	GF Rate w/Sales Tax	GF Rate w/o Sales Tax
<5,000 (11)	0.555057	0.547594
5,000 - 10,000 (16)	0.524836	0.503391
10,000 - 25,000 (38)	0.471816	0.473131
25,000 - 50,000 (28)	0.426393	0.427981
50,000 - 100,000 (14)	0.418037	0.415208
100,000 - 1,000,000 (13)	0.347041	0.392453
>1,000,000 (0)	N/A	0.293553

The preceding table shows the average 2002 General Fund Tax rate for those counties that had a county sales tax as of the end of the year. The last column shows the average General Fund Tax rate for all counties in that population bracket. Curiously, El Paso County with an estimated population of 697,562 was the only county with a population above 300,000 to have a county sales tax at the end of 2002. Of course, many of the

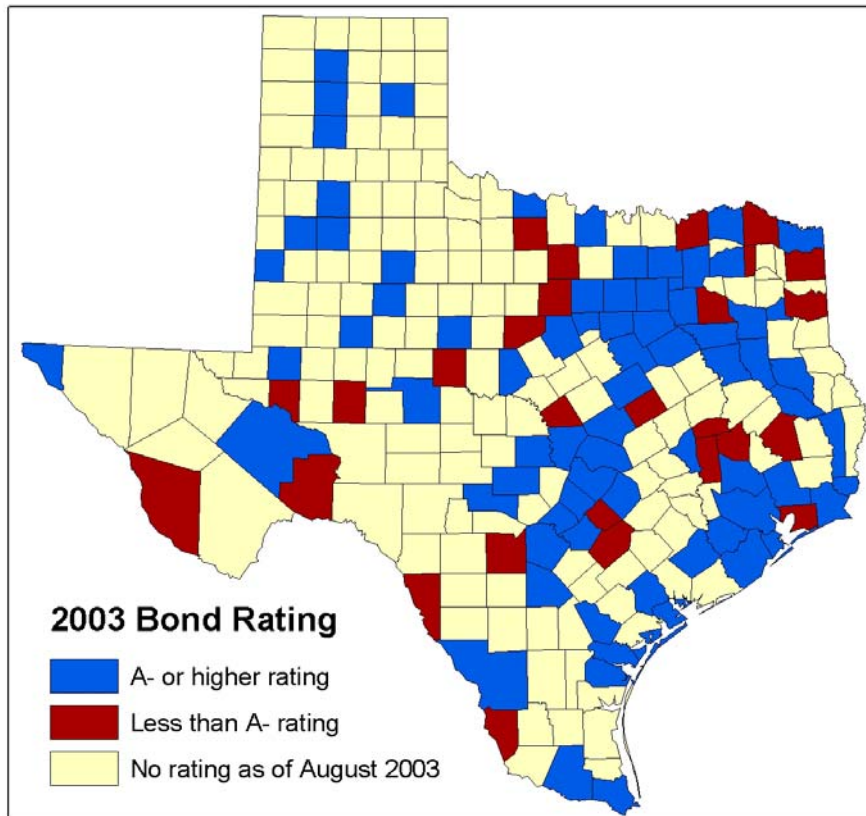
## The County Information Project

larger counties have Municipal Transit Authorities covering part of their territory which stops them from implementing a county sales tax.

### Bond Ratings

The Texas Bond Review Board supplied TAC with the bond ratings for all counties with bonds for the years 2000 – 2003. The data included bond ratings from three organizations: Standards & Poor, Moody's, and Fitch. Each organization uses its own rating scheme, fortunately the Bond Review Board included an extra data element for each county showing whether or not the county had received an "A-" or better rating under one of the rating schemes. Thus if a county received at least one high rating for 2003 it appears in blue in following Map 4. A county who's bonds were rated in 2003, and did not receive a rating of at least "A-" from one of the three organizations<sup>14</sup>, shows up in red in the same map.

Map 4

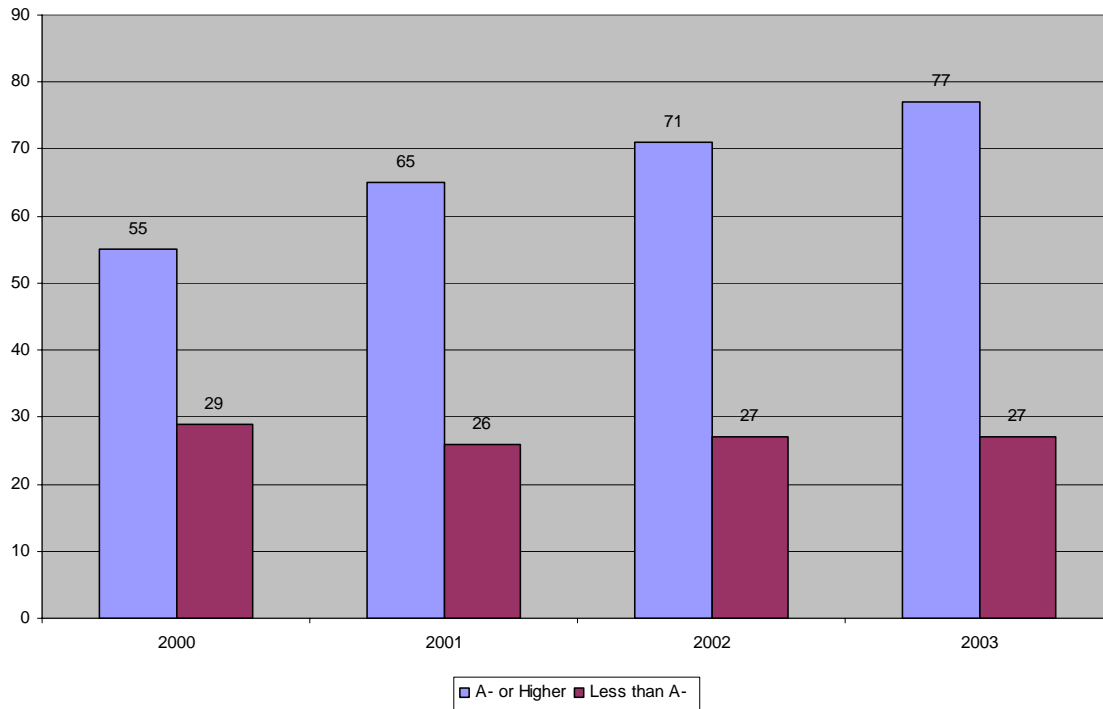


<sup>14</sup> This is not a rare event. For example, three counties that received an "A-" or better rating from Moody's received less than "A-" ratings from Standard & Poor in 2003.

## The County Information Project

Chart 8

Changes in County Bond Ratings  
2000 to 2003



The preceding chart shows the number of counties that have had recent bond ratings. While the number of counties with low bond ratings has remained fairly constant during the four year period shown, the overall number of counties has increased. The data is insufficient to point out why more counties are issuing bonds.

There are many reasons why counties might not have a bond rating. Three of the reasons which come to mind follow.

1. No need to borrow.
2. Needs to borrow, but local sentiment is strongly resistant to issuing bonds.
3. Needs to borrow, but local financial situation is so poor that the interest rates would be ruinous.

Anecdotally there are indications that some, possibly many, counties are adamant in their desire to avoid long-term debt (bonds) at all costs. Indications of this attitude can be found in many counties' reluctance to adopt GASB<sup>15</sup> 34 which requires far more detail than previous standards for presenting financial information about local governments.<sup>16</sup> Since the financial reports produced by the counties are an integral part of the data used

<sup>15</sup> Governmental Accounting Standards Board (GASB).

<sup>16</sup> "[T]his Statement requires governments to . . . reach beyond the familiar to new and different information." – GASB. *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Norwalk, CT: GASB, 1999.

## The County Information Project

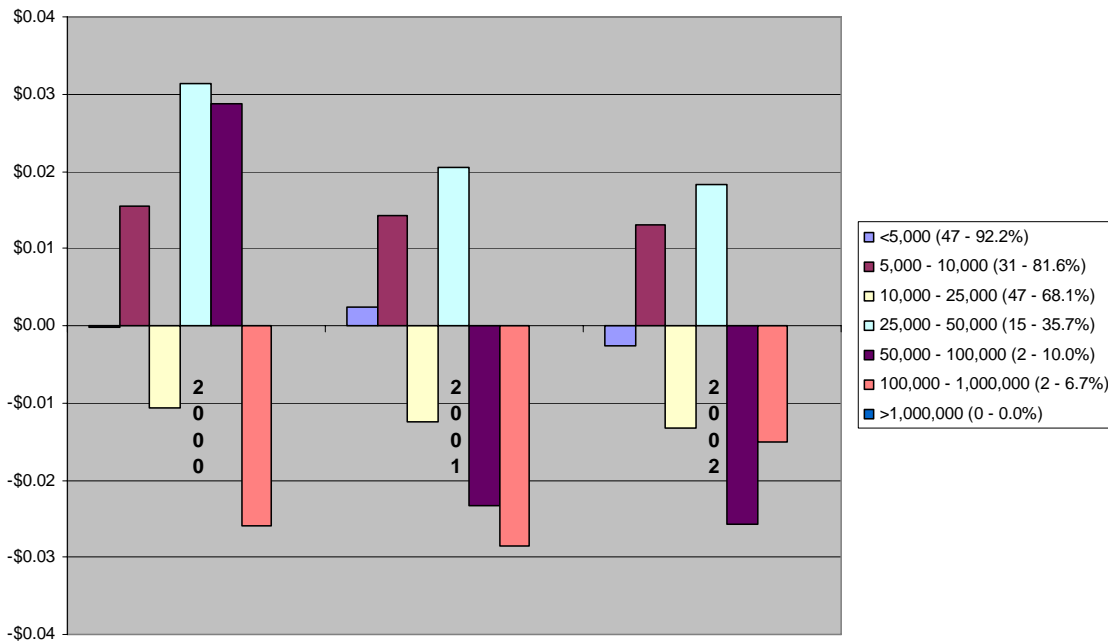
to determine their bond ratings, there is a strong incentive for counties to comply with GASB 34 in order to obtain the best possible rating. Lack of compliance can therefore be seen as a (weak) indication that the county has no interest in obtaining a good bond rating. However, compliance with GASB 34 is not required at this time for all counties.

The third reason mentioned above is actually the easiest to investigate. Chart 9 compares the General Fund Tax rates of counties that had no bond rating during 2000 – 2004 to those that did have a bond rating during that period. The counties are divided into the same population brackets as seen in the earlier charts.

The expectation in developing this chart was that many counties without bond ratings would have a higher than average General Fund Tax rate based upon the assumption that those counties did not have bonds because of poor financial condition. The data does not appear to support that contention since the General Fund Tax rate for some population brackets was higher than for counties with bond ratings,<sup>17</sup> but for others the rate was lower.<sup>18</sup> In addition, some population brackets were inconsistent, sometimes showing higher rates and sometimes showing lower rates.

Chart 9

**Difference in Recent General Fund Tax Rates  
Between Counties With and Without a Bond Rating  
During the Period 2000 - 2003**



<sup>17</sup> This situation will appear as a positive value on the chart.

<sup>18</sup> Negative values show that the counties without bond ratings had lower average General Fund Tax rates.

## The County Information Project

The chart shows differences and not actual values. Thus, in 2000 we see that the 31 counties<sup>19</sup> in the 5,000 – 10,000 population bracket<sup>20</sup> who did not have a bond rating during 2000 – 2003 had an average General Fund Tax rate that was slightly more than one and a half cents (\$0.015466) higher than those counties that did have a bond rating during this period. The smallest counties (population less than 5,000) went from a virtually identical rate in 2000 to a higher average rate in 2001 (higher by \$0.002429) and then to a lower average rate in 2002 (lower by \$0.00263).

### Final Thoughts

It is clear from Chart 2, which shows the number of counties with high General Fund Tax rates, that there are a number of counties that are being pushed to the limit on their property tax rates. As the counties' primary source of revenue, General Fund Tax rates are limited by the constitutional cap of \$0.80 which greatly restricts the counties' ability to raise additional revenue. Clearly, General Fund Tax rates can not continue to grow as they have in the past. In the coming years, many counties will have to find alternative revenue sources or will be forced to reduce expenditures.

Currently, county expenditure data is not available, or rather it is not available in common categories which allow for comparison from one county to another. Hopefully, that will change once the Financial Data Advisory Committee (FDAC) completes its' Chart of Accounts.<sup>21</sup> The County Information Project will then be able to collect expenditure data in an annual survey and, unlike now, comparisons will be possible in "oranges-to-oranges" vice the present "apples-to-oranges" mode.

Some counties have the option of using a county wide sales tax as a source of revenue. Unfortunately, this revenue is restricted in that it is intended to replace part of the property tax levy, rather than supplement it. Further, restrictions on its use by the counties when other local taxing entities establish a high sales tax rate, or when such overlapping entities combine into a high tax rate, limit its applicability. (A possible project for future research would be to look at which counties are or are not eligible to have a county sales tax given the limitations on its implementation.)

The use of long-term debt (bonds) is another option that is available to the counties. While the number of counties that can obtain a good bond rating has risen over the last few years, it is important to note that the number of counties that can not get a good bond rating has remained fairly consistent over the same period. The counties in the later group accounted for one quarter of all counties with bond ratings in 2003. One could make the assumption that the ratio can be extended to all 254 counties. The assumption, if valid, indicates that 64 Texas counties (254 x 0.25) are unable to obtain a good bond rating.

---

<sup>19</sup> 81.6% of all counties in this population bracket did not have a bond rating during 2000-2003.

<sup>20</sup> Population bracket based on 2000 Census.

<sup>21</sup> And counties begin using the Chart!

## The County Information Project

As mentioned previously, questions arose as to why so many counties do not have bond ratings. The possibility that some counties that need to issue bonds do not have bond ratings because of financial difficulties has been raised. It is not at this time a question that is easily investigated. On the other hand, once the FDAC Chart of Accounts is completed, it should be possible to begin collecting data that can be used to investigate the financial condition of the counties.

Counties in Texas are extremely diverse. Nowhere is this diversity seen more clearly than in their finances. Some counties are apparently doing very well. They have a large, growing tax base that has kept pace with population growth so that their per capita General Fund levy is only slightly more in 2002 than it was in 1991 (in constant dollars). In fact, for the most populous counties the actual General Fund tax rate has been declining for several years! But it is the counties with the smallest populations that are suffering. As a group they have the highest tax rates and by far the highest per capita levies.<sup>22</sup>

---

<sup>22</sup> Another avenue of research would be to investigate the effect of growth rates (vice actual population) on tax rates, levies, etc.

## The County Information Project

### Sources

County Information Project, The. *Report on Interim Charge Number 1 to the House Committee on County Affairs, 77th Legislature*. Austin, TX: Texas Association of Counties, 2000.

Governmental Accounting Standards Board (GASB). *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Norwalk, CT: GASB, 1999.

Population Estimates Branch, U.S. Census Bureau. 2000. *(CO-99-4) County Population Estimates for July 1, 1999 and Demographic Components of Population Change: April 1, 1990 to July 1, 1999 (includes revised April 1, 1990 Population Estimates Base)* [online]. Washington, DC: [cited March 10, 2000]. Available from the World Wide Web: (<http://www.census.gov/>)

- 1999. *(SU-98-9) Population Estimates for States, Counties, Places, and Minor Civil Divisions: Annual Time Series, July 1, 1990 to July 1, 1998* [online]. Washington, DC: [cited September 2000]. Available from the World Wide Web: ([http://www.census.gov/population/estimates/metro-city/scful/SC98F\\_TX-DR.txt](http://www.census.gov/population/estimates/metro-city/scful/SC98F_TX-DR.txt))

- 2003. *7/1/2003 County Population Estimates File for Internet Display* [online]. Washington, DC: [cited June 20, 2003]. Available from the World Wide Web: ([http://eire.census.gov/popest/data/counties/tables/county\\_dataset.csv](http://eire.census.gov/popest/data/counties/tables/county_dataset.csv))

Property Tax Division, Texas State Comptroller of Public Accounts. 1992. *County Report of Property Value – 1991* [database]. Austin, TX.

- 1993. *County Report of Property Value – 1992* [database]. Austin, TX.

- 1994. *County Report of Property Value – 1993* [database]. Austin, TX.

- 1995. *County Report of Property Value – 1994* [database]. Austin, TX.

- 1996. *County Report of Property Value – 1995* [database]. Austin, TX.

- 1997. *County Report of Property Value – 1996* [database]. Austin, TX.

- 1998. *County Report of Property Value – 1997* [database]. Austin, TX.

- 1999. *County Report of Property Value – 1998* [database]. Austin, TX.

- 2000. *County Report of Property Value – 1999* [database]. Austin, TX.

- 2001. *County Report of Property Value – 2000* [database]. Austin, TX.

The County Information Project

- . 2002. *County Report of Property Value – 2001* [database]. Austin, TX.

- . 2003. *County Report of Property Value – 2002* [database]. Austin, TX.

- . 2003. *Selected Data from the Report of Property Value – 2002, All Taxing Units* [database]. Austin, TX.

Texas Bond Review Board. 2003. *Local Government Bond Ratings for 2000*. Austin, TX.

- . 2003. *Local Government Bond Ratings for 2001*. Austin, TX.

- . 2003. *Local Government Bond Ratings for 2002*. Austin, TX.

- . 2003. *Local Government Bond Ratings for 2003*. Austin, TX.

Texas Comptroller of Public Accounts. 2003. *All Current Local Sales and Use Tax Rates : City Rates with Local Codes and Total Tax Rates* [online]. Austin, TX. [cited November 2003]. Available from the World Wide Web: (<http://www.window.state.tx.us/taxinfo/sales/>)

- . 2003. *All Current Local Sales and Use Tax Rates : County Rates with Local Codes and Total Tax Rates* [online]. Austin, TX. [cited November 2003]. Available from the World Wide Web: (<http://www.window.state.tx.us/taxinfo/local/county.html>)

- . 2003. *Allocation Historical Summary* [online]. Austin, TX. [cited November 2003]. Available from the World Wide Web: (<http://ecpa.cpa.state.tx.us/allocation/AllocHist.jsp>)

Texas Education Agency. 2003. *School District Boundaries*. [cited November 2003]. Available from the World Wide Web: (<http://deleon.tea.state.tx.us/sdl/SDLdata.asp>)