Truth-in-Taxation
June Webinar

V. G. Young Institute of County Government

SB 2
- New names for rates
- New rates
- New worksheets
- New notices
- New taxing unit types
- New timeframes
- New forms
- New databases

New names for rates

- **Effective Tax Rate** = No-new-revenue tax rate (NRR)
- **Effective M &O rate** = No-new-revenue rate (NNRM&O)
- **Rollback Tax Rate** = Voter-approval tax rate (VAR)
New Rates

- De minimis tax rate
- Unused Increment rate
- County Indigent Defense Compensation Expenditures Rate
- Eligible County Hospital Expenditures Rate

Who uses De Minimis Rate

- Not a School District
- Not a Special Taxing Unit
- Not City with more than 30,000
- Not a Water District

De Minimis Rate

\[ \text{No-Revenue-Rate M&O Rate} + \text{Rate} = \$500,000 \text{ levy} \]
\[ + \text{Debt Rate} \]
\[ = \text{De Minimis Rate} \]
De Minimis Rate

DMR EXCEEDS VAR

- Adopted Rate =< DMR
- But > VAR
- Voters can petition
- 3% of registered voters
- If election passes
- Tax Rate is the VAR

Example:

- Voter-Approval Rate = $0.6412
- De Minimis Rate = $0.6544
- Adopted Rate = $0.6488*

*Possibility for petition

Unused Increment Rate

- Bank, Reserve, Store, Stock Pile
- Difference between VAR* and Actual Tax Rate
- Look back 3 years
- Unused Increment Rate = Zero for tax years previous to 2020

*Voter-approval rate defined in 26.013 is different than the voter-approval rate in 26.04

County Indigent Defense Compensation Expenditures Rate

Tax Code Section 26.0422

- Creates two rates
- Use Lesser of the two
- Add to NNR M&O rate
**County Indigent Defense Compensation Expenditures Rate**

Use expenses between July 1, 2018 to June 30, 2019

Preceding year’s expenses (less state grants) \( \times 0.05 \)

\[ \div \]

Current total value – New property value

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**County Indigent Defense Compensation Expenditures Rate**

Use expenses between July 1, 2019 to June 30, 2020

Current Year’s actual expenses (less state grants) – Last year’s expenses

\[ \div \]

Current total value – New property value

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**Eligible County Hospital Expenditures Rate**

- Creates two rate rates
- Use Lesser of the two
- Add to NNR M&O rate
- For a county or city
Eligible County Hospital Expenditures Rate

Tax Code Section 26.0443

- Owned or leased by a County
- Operated according to Chapter 263 Health & Safety Code
  Or
- Owned or leased jointly by a city and county
- Operated according to Chapter 265 Health & Safety Code
  And
- In an area not served by a hospital district

Eligible County Hospital Expenditures Rate

Use expenses between July 1, 2018 to June 30, 2019

Preceding year’s expenses (less state grants) \( \times .08 \)

\[ \div \]

Current total value – New property value

Eligible County Hospital Expenditures Rate

Use expenses between July 1, 2019 to June 30, 2020

Current Year’s actual expenses (less state grants) – Last year’s expenses

\[ \div \]

Current total value – New property value
**Modifications to calculations**

- Chapter 42 adjustment
- Allowable increase percentage
- New rates to NNR M&O
- Sales Tax and Debt
- Anticipated Collection Rate
Modifications to calculations

Special Taxing Units
• Hospital Districts
• Junior Colleges
• Proposed M&O Rate of 2.5 cents per $100 or less

Adjusted NNR M&O Rate \times 1.08 = \text{Voter-Approval Rate}

Modifications to calculations

Governing body can direct the designated officer or employee to calculate rate according to Special Taxing Units:
• If President or Governor declares disaster area
• During the current year

Continues until earlier of:
• second year unless taxable value exceeds value in year of disaster
  or
• the third year

News Alert – COVID-19
Increase Limit(s)
In a declared* disaster area:

- Declared by the governor or president

Counties
Cities
ESD
Port Authority
Navigation Dist.
Rec. and Con. Dist.

Voter Approval Tax Rate = No-New-Revenue M&O Rate
(times) 1.08
(plus) Current Debt Rate
Modifications to calculations

Calculation of Debt Tax Rate

- Certification of any sales tax funds used to reduce debt
  (by CFO or Auditor 26.05 (e-1) 2020)
- Anticipated Collection Rate
  (from collector)

Anticipated vs Actual

Anticipated Collection Rate
- Estimated by Collector
- Current Taxes + Delinquent Taxes + Penalties + Interest
- Collected by July of the following year

Actual Collection Rate (Effective Jan 1, 2020)
- Can be more than 100%
- Look back three years of actual collections
- Anticipated Collection Rate equals lowest year
Anticipated vs Actual

- Anticipated 2017 = 98%  - Actual 2017 = 100%
- Anticipated 2018 = 90%  - Actual 2018 = 101%
- Anticipated 2019 = 98%  - Actual 2019 = 101.5%
- Anticipated 2020 = 100%
Governing Body Proposes Rate

- Sets Date, Time and Place

- Public Hearing/Meeting to Adopt

- Hold Public Hearing/Meeting

If adopting later – no more than 7 days

- Approved
- Presented and approved
- Recommended
- Recommended for approval
- Recommended for adoption
- Unanimously approved
- Unanimously adopted
- Passed
- Adopted
- Ratified
Governing Body Proposes Rate

Notices have:
- Names of ALL members of governing body
- Record of how each voted
- "For" or "Against" proposed tax rate
- Indicate any absences
- Definition of rates

Governing Body Proposes Rate

Notices have:
- Information about hearings/elections/petitions
- How to calculate a tax
- Chart required by 26.062
- Statement about the 86th Legislature
- Where you can find calculations

Notices

Tax Code 26.062

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>CHANGE</th>
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<tbody>
<tr>
<td>TOTAL TAX RATE (PER $100 OF VALUE)</td>
<td>0.45599</td>
<td>0.44111</td>
<td>Decrease of $0.488 or 3.36%</td>
</tr>
<tr>
<td>AVERAGE HOMESTEAD TAXABLE VALUE</td>
<td>175,000</td>
<td>178,500</td>
<td>Increase of 2%</td>
</tr>
<tr>
<td>TAX ON AVERAGE HOMESTEAD</td>
<td>$797.98</td>
<td>$873.38</td>
<td>Decrease of $75.40 or 9.62%</td>
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<tr>
<td>TOTAL TAX LEVY ON ALL PROPERTIES</td>
<td>$7,788,050.00</td>
<td>$7,950,880</td>
<td>Increase of $162,830 or 2%</td>
</tr>
</tbody>
</table>
One Notice

Either
Public Hearing Notice #1, #2, #3

OR
Meeting to Vote #50-883

Public Hearing Notices
Three different notices depending on PROPOSED tax rate

Notice #50-873 – Tax Code Section 26.06 (b-1)
• Proposed rate EXCEEDS both NNR and VAR rates

Notice #50-876 – Tax Code Section 26.06 (b-2)
• Proposed rate EXCEEDS the NNR but not VAR

Notice #50-877 – Tax Code Section 26.06 (b-3)
• Proposed rate EXCEEDS the VAR but not the NNR
Public Hearing Notices

• Mail or Publish in Newspaper and Internet
• At least 5 days before meeting
• Homepage of website/Until meeting has concluded
• How each governing body member voted

Meeting to Vote Notice

• Mail or Publish in Newspaper and Internet
Tax Code not clear on date to publish (recommend 5 days at least)
• Homepage of website/Until meeting has concluded
• How each governing body member voted
Information about tax rates
Not a school
Not a water district
Not a small taxing unit

Small Taxing Unit
"Low Tax Levies"

- Small Taxing Unit Notice
- By mail or publishing 7 days before meeting
- If notice is published in newspaper

Must also post on HOMEPAGE
On the Taxing Unit's website
1. Submit calculated rates to governing body
2. Post Comptroller Form 50-212 on Homepage of website
4. Appraisal District sends notice by mail or email (2020/2021)

78th Day before Uniform Election Date (Elec. Code 3.005)
71st Day before Uniform Election Date
Deadline set by tax assessor
Deadline to adopt tax rate (except Water Districts)
Assessor/Designated Officer or Employee

Governing body designates:
• By official action
• Could be in your interlocal contract
• Name of officer (county tax assessor-collector) or an employee (individual)

Databases for Counties only (Section 26.16) (2011)
Databases for Appraisal Districts (Section 26.17) (2020/2021)
Databases for ALL Taxing Units (Section 26.18) (2020)
Databases for Counties

Tax Code Section 26.16

Maintain a Website

Post following rates:
• Adopted Rate
• M & O Rate
• Debt Rate
• NNR and VAR Rates

Databases for Counties

Tax Code Section 26.16

• Contact Info for Members of Governing Body of Taxing Unit

• Calculation Worksheets (Aug 7)

• Explanation of Rate Name Change (Expires 2026)
Appraisal District Database

**Tax Code Section 26.17**

**Effective dates:**
Appraisal District with population of 200,000 or more
Taxing units primarily or wholly within district

**Tax year 2020**
Less than 200,000

**Tax Year 2021**

- Property Owner's name
- Property's Address
- Property's ID number
- Market Value
- Taxable Value
- Taxing Units
- Email of Taxing Unit
- Internet Link to Taxing Unit

**Assessor's role**

- (b)(5) No-New-Revenue Tax Rate
- (b)(5) Voter-Approval Tax Rate
- (b)(7) Proposed Tax Rate
- Difference between NNR and Proposed Rate
- (b)(12)(13) Date, Time and Place
- (b)(12)(13) Public Hearing/Meeting
- (e)(2) Tax Rate Calculations Forms
Appraisal District Database

**Tax Code Section 26.17**

Assessor’s role (b)(14) email address of each taxing unit – capable of receiving written comments about proposed rate

Database for ALL Taxing Units

**Tax Code Section 26.18**

- Maintain/Have Access to Website
- Format Prescribed by Comptroller
- Name of Each Member of G.B.
- Mailing, Email and Phone #
- Official Contact Information
- Recent Financial Audit

Database for ALL Taxing Units

Each taxing unit MUST post:

**Tax Code Section 26.18**

- Budget for Two Proceeding Years
- Proposed/Adopted Budget
- Amount Change (Dollar/Percent)
- M&O Budget/Rates
- Debt Budget/Rates
School Districts

- No more "tax swapping"
- Must use uniform election date
- Must conduct an Efficiency Audit
- Bond Election Ballot Language
- 2020 Compressed Rate

Tax year and fiscal year

- TY = Tax year (Jan 1 to Dec 31 is TY 2020)
- FY = Fiscal year (July 1 to June 30 is FY 2021) or (Sept 1 to Aug 31 is FY 2021)
- TY 2020 aligns with FY 2021 or 2020-2021
MCR or Maximum Compression Rate

- Beginning in 2020, TEA will publish the MCR Tier One tax rates for each school district.

- The rates will vary by district based on the local property value growth rate as compared to state value growth.

- There is no further compression to the enrichment tax rate (Tier 2).
Tier One M&O Rates Continue to Decline

1. TX (FY2021) compression begins on Tier One
2. Tax caps threshold increased by one penny

<table>
<thead>
<tr>
<th>Tier 1</th>
<th>Tier 2 (Max 6.17)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.92*</td>
<td>$1.09</td>
</tr>
</tbody>
</table>

8 Golden Pennies 9 Copper Pennies

FY 2020 (FY 2019) Tax Compression

Tax Compression Increases Tier Two Taxing Capacity (meaningful discretion)

- After FY 2020 districts will be able to access $0.027 cents of enrichment tax effort with a voter approval election.
- This provides all districts, even those who were already at $1.17 in FY 2018 the ability to increase their enrichment revenue with voter approval.
- A district which had a $1.17 tax rate in FY 2018 that was compressed to $1.083 will be able to access an additional $0.0047 in revenue through initial approval. (This would be above the districts new NPER plus the previously accessed $0.0083 of Tier Two)

Additional Resources - Templates

- TEA funding Template: [https://www.tea.state.tx.us/programs_services/finance_funding](https://www.tea.state.tx.us/programs_services/finance_funding)
- TY 2019, TY 2020 Tax Rate Template: [https://www.tea.state.tx.us/programs_services/finance/monographs/2019ucing_Tax_Rate_Template](https://www.tea.state.tx.us/programs_services/finance/monographs/2019ucing_Tax_Rate_Template)
**School Districts and CADs**

- Estimating revenue and state aid
  - Understanding relationship between CAD values and PVS
  - Plan for mid-year changes in state aid cash flow

- Districts with Chapter 313 and TIRZ
  - Need to identify value coming back on the tax roll

- Common error with estimations
  - Estimating low, using conservative approach
  - Using last year’s PVS values

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**Value Growth Rate**

- The compression rate is calculated using an increase of 2.5% when compared both locally and statewide.

- The school district will use the lower of the state or local growth percentage to determine its MCR.

- For tax year 2020 TEA is using 4.01% growth rate statewide.

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**Value Growth Rate**

Formula for this calculation:

Last year’s **MCR** rate...$0.93

Increase comparison 2.5% or 1.025

Statewide growth rate 4.01% or 1.0401

\[
MCR = 0.93 \times \left( \frac{1.025}{1.0401} \right) = 0.9164
\]

TEA only goes out four decimal places then truncates the results

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Value Growth Rate

• A school district that has a higher local growth rate will have a lower MCR rate.

• In order to maintain tax rate equity, no district can have an MCR less than 90% of any other district – so there is a minimum calculation.

• The lowest MCR for TY 2020 will be \(0.9164 \times 90\% = 0.8247\).

Examples of different growth rates

Districts with local property tax value growth that is faster than the statewide average will have their rates compressed further.

EXAMPLE: Local growth higher than state
Last year’s MCR \(= 0.93\)
Increase comparison 2.5% or 1.025
Local growth rate 8.5% or 1.085

\[
MCR = 0.93 \times \left(\frac{1.025}{1.085}\right) = 0.8785
\]

Maximum Compressed Rates

• The maximum M&O tax rate allowed for 2020 would be \(\$1.0864 \times (0.9164 + 0.17)\).

• An M&O tax rate could go as low as \$0.8247 depending on total value increase.
Debt tax rate for school districts

- Tax Code 26.05 (a) – separate component
- Education Code 44.004 (c)(5)(A)(i)(b) – how to calculate
- Education Code 45.001 (2) – “or before”
- Education Code 46.001 and 46.031 – IFA and EDA
Water Districts

- “Low tax rate” water district
  - Has an 8% increase limit on M&O
  - On average homestead of preceding year
  - Automatic Election

- “Developed” water district
  - Has a 3.5% increase limit on M&O
  - On average homestead of preceding year
  - Automatic Election
  - Can go up to 8% for declared disaster

- Neither a “Low tax rate” nor “Developed” water district
Water Districts

"Undeveloped" water district

- Has an 8% increase limit on M&O
- On average homestead of preceding year
- Must petition for rollback if adopted rate is over 8%

<table>
<thead>
<tr>
<th>Water Districts</th>
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<tbody>
<tr>
<td>Low Tax Rate Districts</td>
</tr>
<tr>
<td>Water Code</td>
</tr>
<tr>
<td>Defined</td>
</tr>
<tr>
<td>M&amp;O Increase</td>
</tr>
<tr>
<td>Trigger</td>
</tr>
<tr>
<td>Exceeds limits</td>
</tr>
</tbody>
</table>

Almost over...
- Use Comptroller Prescribed Worksheets (2021)
- Certification of Worksheets (2021)
- Submission to County Tax Assessor-Collector (2021)

Final Notes

Good News
- One public hearing
- One notice
- Adopt rate at hearing

Other News
- New Rates
- New Calculating Forms
- New Databases

Questions?

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