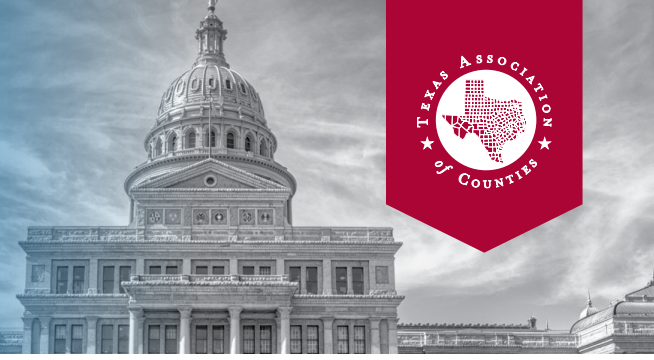




Legislative Brief

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PROPERTY TAX AND TRANSPARENCY REFORMS

BACKGROUND

The 86th Legislature made significant changes to the property tax and appraisal system with the passage of Senate Bill 2, known as the Texas Property Tax and Transparency Act of 2019. SB 2 changed tax rate terminology, changed and added tax rate calculations, increased public notice requirements, adjusted the budget adoption timeline and created a property tax database for tax payers.

NEW TERMINOLOGY

Previously, the “effective tax rate” referred to the tax rate a county would need in order to raise the same amount of property tax revenue after taking into account changes in appraised values. SB 2 changed the terms “effective tax rate” and “effective maintenance and operations tax rate” to “no-new-revenue tax rate” and “no-new-revenue maintenance and operations tax rate.” The formula for calculating the no-new-revenue tax rate and no-new-revenue maintenance and operations tax rate did not change.

Additionally, the “rollback tax rate” was the maximum tax rate that a county was permitted to set without triggering an automatic petition. The rollback rate for a county was the effective maintenance and operations rate multiplied by 1.08, then added to the current debt rate. SB 2 changes the term “rollback tax rate” to “voter-approval tax rate.”

Previous terminology	New SB 2 terminology
Effective tax rate	➤ No-new-revenue tax rate
Effective maintenance and operations tax rate	➤ No-new-revenue maintenance and operations tax rate
Rollback tax rate	➤ Voter-approval tax rate

VOTER-APPROVAL RATE CALCULATION

Previously, a county had the ability to adopt a rate 8% above its no-new-revenue tax rate without potentially triggering a petition. SB 2 lowered the voter-approval rate, to 3.5%, changing the multiplier from 1.08 to 1.035 as seen in the equation below. **If a county adopts a tax rate greater than the voter- approval tax rate, an automatic election will be triggered for November.**

$$\frac{\text{(No-new-revenue maintenance and operations rate} \times 1.035) + \text{Current debt service}}{\text{= Voter-approval rate}}$$

RATE ADJUSTMENTS

Unused Increment Rate

A new term called the “unused increment rate” is included in the voter-approval rate calculation in SB 2. Though not shown in the above calculation, the “unused increment rate” is the difference between the adopted tax rate and the voter-approval rate (provided the adopted tax rate does not exceed the voter-approval rate). A county will have the ability to save, or “bank,” up to three years of unused increments. The banked unused increment rate can be used by a county to exceed the voter-approval rate without automatically triggering an election. SB 2 stipulates all counties will start the 2020 tax year with an unused incremental rate of zero.

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De Minimis Rate

The “de minimis rate” is another new term and tax rate calculation introduced in SB 2. There is no specific population bracket or tax levy amount associated with the use of the de minimis rate. Each county is authorized to raise an additional \$500,000 without triggering an automatic voter-approval election even if it were to exceed the voter-approved tax rate. The de minimis rate is defined as the sum of:

1. The taxing unit’s no-new-revenue maintenance and operations rate;
2. The rate that, when applied to the taxing unit’s current total value, will impose an amount of taxes equal to \$500,000; and
3. The taxing unit’s current debt rate.

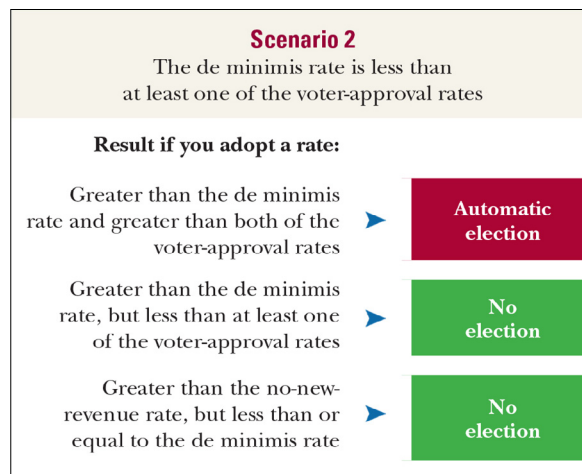
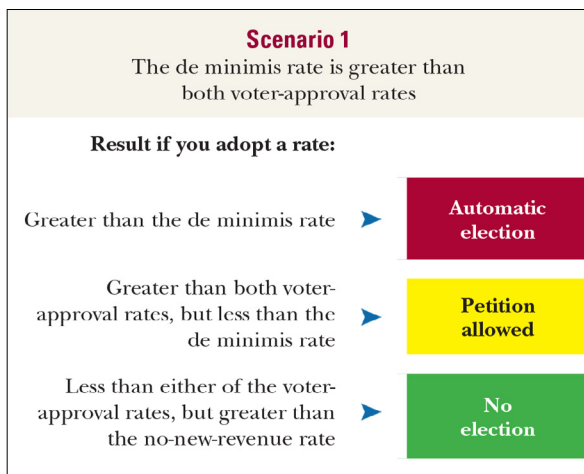
If a county uses the de minimis rate, the county must provide notice of the proposed tax increase and hold a public hearing, just as the county would do in proposing an adopted tax rate above the no- new-revenue tax rate. If the county adopts a tax rate that exceeds the greater of the voter-approval rate or the de minimis rate, the county is subject to an automatic voter-approval election. A county may adopt a tax rate greater than both the voter-approval rate (3.5%) and the voter-approval rate calculated as if the taxing unit were a special unit (8%) but less than or equal to the de minimis rate. If a county adopts this rate, it is subject to a voter-approval election if a petition is signed by 3% of the county’s qualified voters.

County Hospital Expenditures

SB 2 added an adjustment to the no-new-revenue maintenance and operations rate — and therefore also the voter-approval rate — for eligible county hospital expenditures. The definition of “eligible county hospital” includes a hospital that is owned or leased jointly by a county. If a county makes eligible county hospital expenditures and the expenditures exceed the amount of the same expenditures from the preceding tax year, the county may increase its no-new-revenue maintenance and operations tax rate by the lesser of the rates computed, according to the formulas provided in statute.

Formulas

$$\frac{(\text{Current Tax Year's Eligible County Hospital Expenditures} - \text{Preceding Tax Year's Eligible County Hospital Expenditures})}{(\text{Current Total Value} - \text{New Property Value})} \text{ OR } \frac{(\text{Preceding Tax Year's Eligible County Hospital Expenditures} \times 0.08)}{(\text{Current Total Value} - \text{New Property Value})}$$





Natural Disaster Provision

If, during the current tax year, a county is located in an area declared a disaster by the governor or by the president of the United States, the county can use a voter-approval tax rate using 8% instead of 3.5%. A county can continue to use 8% until:

1. The second tax year in which the total taxable value of property in the county exceeds the total taxable value of property taxable by the county on Jan. 1 of the tax year in which the disaster occurred; or
2. The third tax year after the tax year in which the disaster occurred.

Indigent Defense Compensation Expenditures

SB 2 added an adjustment for county indigent defense expenditures for the amount paid by a county to provide appointed counsel for indigent individuals in criminal or civil proceedings. If the county’s indigent defense compensation expenditures exceed the amount of those from the preceding year, the no-new-revenue maintenance and operations rate for the county is increased by the lesser of the rates computed according to the following formulas:

Formulas

$$\frac{\begin{aligned} &(\text{Current Tax Year's Indigent Defense} \\ &\text{Compensation Expenditures} \\ &\ominus \text{Preceding Tax Year's Indigent} \\ &\text{Defense Compensation Expenditures}) \\ &(\text{Current Total Value} \\ &\ominus \text{New Property Value}) \end{aligned}}{\begin{aligned} &(\text{Preceding Tax Year's Indigent} \\ &\text{Defense Compensation Expenditures} \\ &\times 0.05) \\ &(\text{Current Total Value} \\ &\ominus \text{New Property Value}) \end{aligned}}$$

OR

Relief for Pollution Control

SB 2 provides for an increase in the voter-approval rate equal to the amount spent out of its maintenance and operations funds to pay for a facility, device or method for the control of air, water or land pollution that is necessary to meet the requirements of a permit issued by the Texas Commission on Environmental Quality.

WEBSITE REQUIREMENTS

SB 2 requires every county to maintain an Internet website. SB 2 exempts counties from certain website posting requirements, but there is no exemption for the new requirement to post tax rates and budget information.

Website Posting Requirements

Each county is required to post the following to its website:

1. The name of each member of the commissioners court;
2. The mailing address, email address and telephone number of the county;
3. The official contact information for each member of the commissioners court;
4. The county’s budget for the previous two years;
5. The county’s proposed or adopted budget for the current year;
6. The change in the amount of the county’s budget from the preceding year to the current year, by dollar amount and percentage;
7. The amount of property tax revenue budgeted for maintenance and operations for the current year and previous two years;
8. The amount of property tax revenue budgeted for debt services for the current year and previous two years;
9. The tax rate for maintenance and operations adopted by the county for the previous two years;
10. The tax rate for debt service adopted by the county for the previous two years;

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11. The tax rate for maintenance and operations proposed by the taxing unit for the current year;
12. The tax rate for debt service proposed by the taxing unit for the current year; and
13. The most recent financial audit of the county.

PROPERTY TAX DATABASE

SB 2 requires the chief appraiser of each appraisal district to create and maintain a property tax database that: (1) contains information that is provided by taxing units located in the appraisal district; (2) is continuously updated as preliminary and revised data becomes available and is provided by the designated officers or employees of taxing units; (3) is accessible to the public; and (4) is searchable by property address and owner.

The property tax database is required to include various types of information with respect to each property listed on the appraisal roll for the appraisal district. A county's designated officer or employee is required to electronically incorporate the following information into the database as the information becomes available:

1. The no-new-revenue tax rate and the voter-approval tax rate;
2. The proposed tax rate;
3. The date, time and location of the public hearing, if applicable, on the proposed tax rate;
4. The date, time and location of the public meeting, if applicable, at which the tax rate will be adopted; and
5. The completed tax rate calculation forms. ★

Next Steps

As with any major reform, there are always areas where adjustments are necessary to fulfill the legislature's intent. Counties will continue to partner with the state to address issues with the bill to help counties comply.