BUDGET UPDATE
SB 2 - TEXAS PROPERTY TAX REFORM AND TRANSPARENCY ACT OF 2019

November 12, 2019

SB 2 - Texas Property Tax Reform and Transparency Act of 2019

- Lowers the tax rate a taxing unit can adopt without voter approval and requiring a mandatory election to go above the lowered rate;
- Makes numerous changes to the procedure by which a city adopts a tax rate; and
- Makes several changes to the property tax appraisal process

Terminology Changes

- “Effective tax rate” changed to “no-new-revenue tax rate”
  - Although the name of that tax rate changed, the calculation did not
- “Rollback tax rate” changed to “voter-approval tax rate”

“No New Revenue Tax Rate” Definition

- The tax rate that would generate the same amount of revenue in the current tax year as was generated in the preceding tax year

“No-New-Revenue Tax Rate” Calculation

- Calculated each year based on certified values received from CAD on July 25
- Some key factors include:
  - Previous year’s 1) **tax rate** and 2) **taxable value**
    - Adjustments for court decisions, refunds, taxes paid to a TIF
  - Current year 1) **property values**
    - Adjustments for new property and increases in TIF funds

“No New Revenue Tax Rate” Definition

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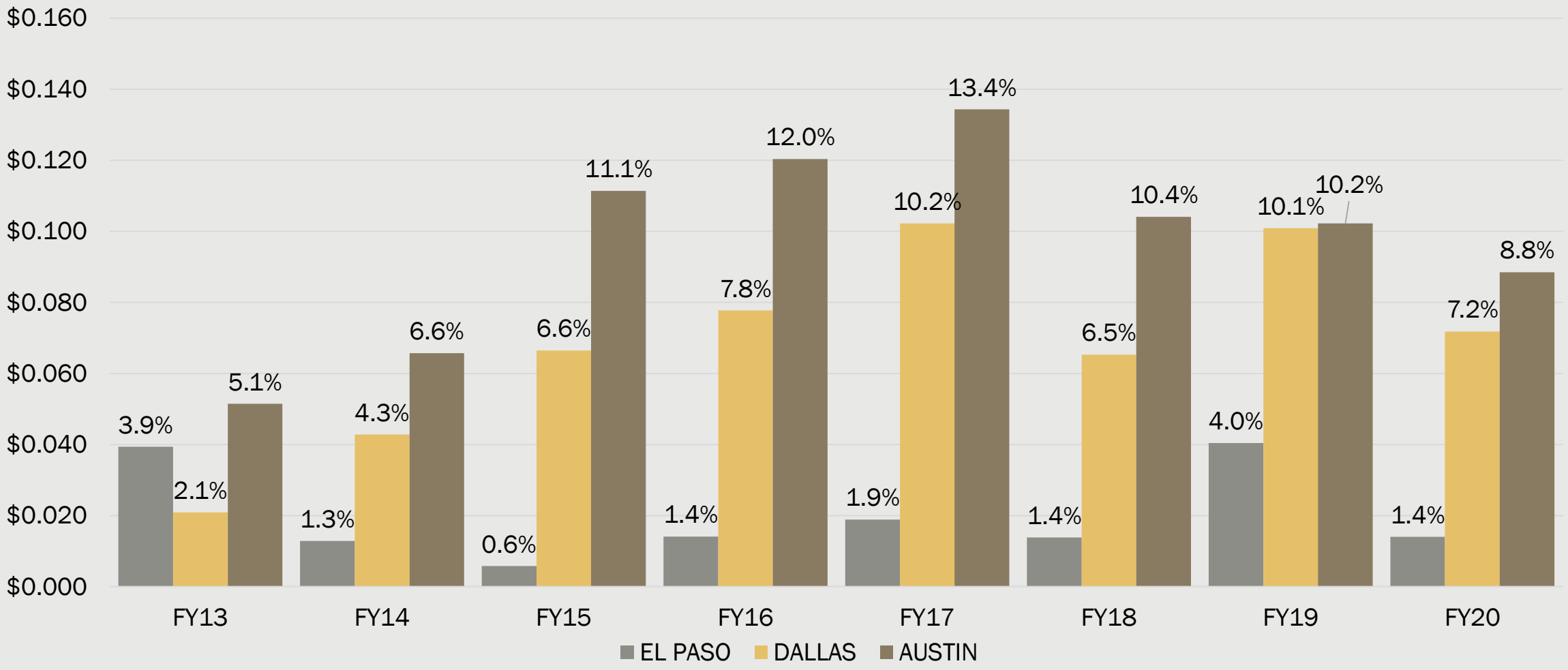
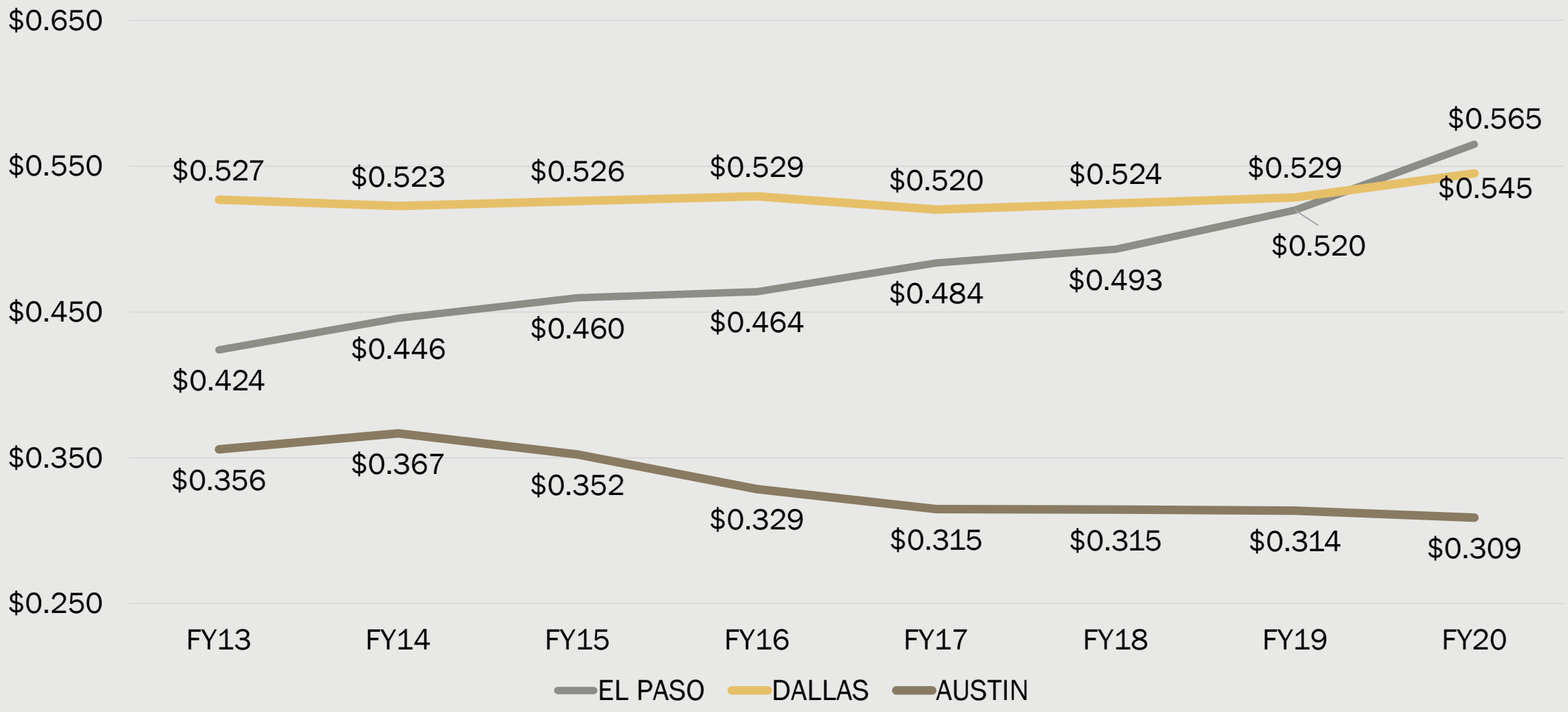
Certified Valuation Comparison



Historical O & M Effective Rates



“Voter-Approval Tax Rate” Definition

- The highest tax rate a taxing unit may adopt before requiring voter approval at an election

“Voter-Approval Tax Rate” Calculation

- “No-New-Revenue Tax Rate” multiplied by 3.5%
- SB2 lowered the multiplier used in the rate calculation from 8.0% to 3.5%
- 3.5 percent “cap” <u>only applies to the maintenance & operations</u> rate. Does not apply to debt rate.

Approval of a tax rate that exceeds the voter-approval rate

- Prior to SB 2, any rate adopted that exceeded the 8 percent rollback rate triggered the ability of citizens to petition to hold an election to “roll back” the tax rate to the rollback rate.
- S.B. 2 requires a city to hold an automatic election on the November uniform election date if it adopts a rate exceeding the 3.5 percent voter-approval rate

Unused Increment Rate

- The unused increment rate can be used to increase the voter-approval rate, depending upon the tax rates adopted by the city in the previous three years
- The city has the ability to “bank” any unused amounts below the voter-approval rate to use for up to three years

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Adoption of Tax Rate and Public Hearings

- Previously,
  - When a city proposed a tax rate that exceeded the lower of the effective tax rate or the rollback rate, the city had to hold two public hearings prior to adopting the tax rate (hearings and adoption at separate meetings)
- Now,
  - S.B. 2 eliminated one of the existing tax rate hearings
  - Authorizes the city council to vote on the proposed tax rate at the public hearing

Adoption of the Tax Rate & Budget

- If a city adopts a rate exceeding the voter-approval tax rate, it must do so not later than the 71st day before the November uniform election date, which is the first Tuesday following the first Monday in November
- The 71st day will change every year depending upon when the November election date occurs, but generally it will occur in mid-to-late August

What happens if voters don’t approve a city tax rate exceeding the voter-approval rate?

- If voters do not approve the city’s adopted tax rate at a tax rate approval election, the city’s rate for the current tax year is set at the voter-approval tax rate.

- If property owners pay their taxes using the originally adopted tax rate and the voters ultimately reject that rate at an election in November, the city must refund the difference between the amount of taxes paid and the amount of taxes due under the voter-approval tax rate