Senate Bill 2 Passed. What Now?

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How Did We Get Here?
Major Components of S.B. 2

• Lowers the tax rate a city can adopt without voter approval and requires mandatory election to go above the lowered rate

• Enhanced transparency and “Truth-in-Taxation” modifications

• Appraisal reforms
New Terminology

- Effective Tax Rate
- Rollback Tax Rate
- No-New-Revenue Tax Rate
- Voter-Approval Tax Rate
In a Nutshell...

Pre S.B. 2

• If city adopted a tax rate exceeding the rollback rate (8 percent M&O growth), voters could petition for a rollback election.
• Rollback election not held on uniform election date.

Post S.B. 2

• If city adopts a tax rate exceeding the voter-approval rate (3.5 percent M&O growth, plus “unused increment rate”), city must hold an automatic election.
• Tax rate approval election held on November uniform election date.
Special Taxing Units

• Hospital Districts
• Junior College Districts
• Any taxing unit, other than a school, with a tax rate less than 2.5 cents per $100
• Special taxing unit keeps an 8 percent voter-approval rate
Voter-Approval Rate Calculation (non-special taxing units)

\[
\text{Voter-Approval Rate} = \text{No-New-Revenue M&O} \times 1.035 + \text{Debt Service Tax Rate} + \text{Unused Increment Rate}
\]
Unused Increment Rate

- A new component in the voter-approval rate formula
- The 3-year rolling sum of the difference between the adopted tax rate and the voter-approval tax rate
- The city can “bank” unused amounts for up to three years
Unused Increment Example

<table>
<thead>
<tr>
<th>Year</th>
<th>Voter-Approval Rate</th>
<th>Adopted Rate</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>.50000</td>
<td>.50000</td>
<td>0</td>
</tr>
<tr>
<td>2021</td>
<td>.50250</td>
<td>.50000</td>
<td>.00250</td>
</tr>
<tr>
<td>2022</td>
<td>.51000</td>
<td>.50000</td>
<td>.01000</td>
</tr>
</tbody>
</table>

In 2023, the city would have an unused increment rate of .01250, which would be factored into the voter-approval tax rate formula.
De Minimis Rate

I DONT UNDERSTAND
De Minimis Rate, defined

No-New-Revenue M&O Rate + Rate that would impose $500,000 of property taxes when applied to city's current total value + Debt Service Tax Rate = De Minimis Tax Rate
Application of De Minimis Rate

• Cities over 30,000 population don’t calculate de minimis rate; don’t receive flexibility it provides.

• For cities under 30,000 population, if the de minimis rate exceeds the voter-approval rate, automatic election is triggered only if city’s adopted rate exceeds the de minimis rate.
### Unexpected Results

<table>
<thead>
<tr>
<th></th>
<th>Total Taxable Value</th>
<th>No-New-Revenue M&amp;O Tax Rate</th>
<th>Rate necessary to generate $500,000</th>
<th>Debt Service Tax Rate</th>
<th>De minimis Rate</th>
<th>Voter-Approval Rate (Assuming Unused Increment Rate of zero)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small City</td>
<td>$35,000,000</td>
<td>.3456</td>
<td>1.4285</td>
<td>0</td>
<td>1.7741</td>
<td>.3577</td>
</tr>
</tbody>
</table>

Under this scenario, a small city could increase its tax rate by 313 percent over the no-new-revenue rate without holding an automatic election.
Legislative Reaction

• If a city’s adopted tax rate is equal to or lower than the de minimis rate, but higher than an 8 percent voter-approval rate (calculated as if city were special taxing unit), the voters can petition for an election.
De Minimis Rate, Illustrated

The following assumes the de minimis rate exceeds the 3.5 percent voter-approval rate:

- City’s adopted rate lower than de minimis and doesn’t exceed an 8% voter approval rate applicable to special taxing unit – **no election required (automatic or petition)**

- City’s adopted rate equal to or lower than de minimis rate, but exceeds an 8% voter-approval tax rate applicable to a special taxing unit – **Citizens may petition for an election**

- City’s adopted tax rate exceeds de minimis rate – **Automatic election in November**
Disaster Flexibility

- City may calculate the voter-approval tax rate in the manner provided for a special taxing unit (8 percent) in disaster area for up to 3 years after tax year in which disaster occurred.
- No tax election when city adopts a tax rate for the year following the year in which a disaster occurs.
Timeline

July 25th
• Chief Appraiser must submit certified appraisal roll or a certified estimate

Mid-August
• If city adopts a rate exceeding the voter-approval tax rate, it must order the election by the 78th day before election day (8/19/19)
• As a practical matter, this means the city must adopt its budget and tax rate by mid-August

September 29th
• Last day to adopt tax rate that is equal to or less than the voter approval tax rate

First Tuesday of November
• The November uniform election date is the first Tuesday following the first Monday in November
• Automatic tax rate elections held on this day
Compressed Schedule

• Concessions made to expedite tax rate adoption process include:
  – Only one required tax rate hearing if city proposes a rate exceeding the no-new-revenue rate
  – Tax rate hearing can be held as early as the fifth day after the date notice is given (Can’t be held until fifth day after chief appraiser delivers mandatory notice – must do so by August 7th)
  – Tax rate can be adopted at the public hearing on the tax rate
Transparency Changes

• 2015-2019 rate calculation worksheets must be sent to assessor-collector by 9/25/19
• Comptroller to create new calculation worksheets; must be attached as appendix to the budget (beginning 2021)
• Simplified notice in LGC Sec. 140.010 repealed
• Website notice by August 7th, then new notice given in advance of tax rate hearing or meeting to adopt tax rate
Property Tax Database

• Chief appraiser must create and maintain a property tax database that contains tax information from all taxing units, is accessible to the public, and searchable by property address and owner

• City’s designated officer or employee required to submit rate information and details on hearing and meeting to adopt as information becomes available
Website Posting Requirements

- City Council members
- Contact info for city and councilmembers
- Budget for previous two years
- Proposed or adopted budget for current year
- Change in budget from last year to this year
- M&O property tax revenue and rate for current year and previous two years
- Debt service rate for current year and previous two years
- Most recent financial audit
SECTION 119. (a) In this section:

(1) "Compensation" includes a salary, wage, insurance benefit, retirement benefit, or similar benefit an employee receives as a condition of employment.

(2) "First responder" has the meaning assigned by Section 504.019, Labor Code.

(3) "Taxing unit" has the meaning assigned by Section 1.04, Tax Code.

(b) This section applies only to the fiscal year of a taxing unit that begins in 2020.

(c) The governing body of a taxing unit may not adopt a budget for a fiscal year or take any other action that has the effect of decreasing the total compensation to which a first responder employed by the taxing unit was entitled in the preceding fiscal year of the taxing unit.
The Future of Municipal Finance
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Explanatory Q&A can be found here.

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