

Basic Legal Requirements for the Budget and Tax Rate

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Part One: Budget

- “Budget” not defined in statute
- Budget: An estimate of income and expenditure for a set period of time
- Tex. Loc. Gov’t Code Chapter 102: Municipal Budget
- TLGC § 102.002: Annual budget required

What must be included in the budget?

- TLGC Sec. 102.003 requires:
 - Itemized comparison between expenditures in the proposed budget and in the preceding year
 - Must show the estimated amount of money for each project or expenditure
 - A complete financial statement that shows:
 - Outstanding obligations
 - Cash on hand in each fund (*See TLGC Ch. 101...*)
 - All funds received during preceding year
 - All funds available for ensuing year
 - Estimated revenue available to cover proposed budget
 - Estimated tax rate needed to cover proposed budget

Proposed Budget

- Prepared by “budget officer”
- Must be filed with city secretary at least 30 days before levy of property tax
- Posted on city’s website and available for inspection
- Cover sheet if proposed budget raises more from property taxes than in previous year

Budget Hearing

- At least 15 days after proposed budget filed with city secretary, but before date of the tax levy
- Published notice of hearing
 - Must be published in paper between 10 and 30 days before the hearing
 - Include statement if budget raises more from property taxes than the previous year
- Action must be taken at end of hearing

Budget Adoption

- Budget adopted after budget hearing but before tax rate adoption
 - City “may levy taxes only in accordance with the budget” (TLGC Sec. 102.009)
 - City may only spend funds in “strict compliance” with budget
- Record vote
- Separate ratification vote if more property tax revenue
- Cover sheet for adopted budget
 - Statement if budget raises more, less, or the same amount of property taxes as previous budget
 - Record vote, and various tax rates included on cover sheet
 - Posted on website
 - Don’t do math in public...

Budget Amendments

- Budget can be amended
- Section 102.009:
 - Governing body may authorize an emergency expenditure as an amendment to the original budget only in a case of grave public necessity to meet an unusual and unforeseen condition that could not have been included in the original budget through the use of reasonably diligent thought and attention.

Food for Thought

- Not required, but many cities have this:
 - Does your city have a Budgetary Policy??
 - If yes, then Read It.
 - If no, then Think about it...
 - City goals past, present and future
 - Use the budget process to explain how the City has used its funds to meet community goals.
 - Delegation of purchasing authority
 - Purchasing policy

Part Two: Property Tax Adoption



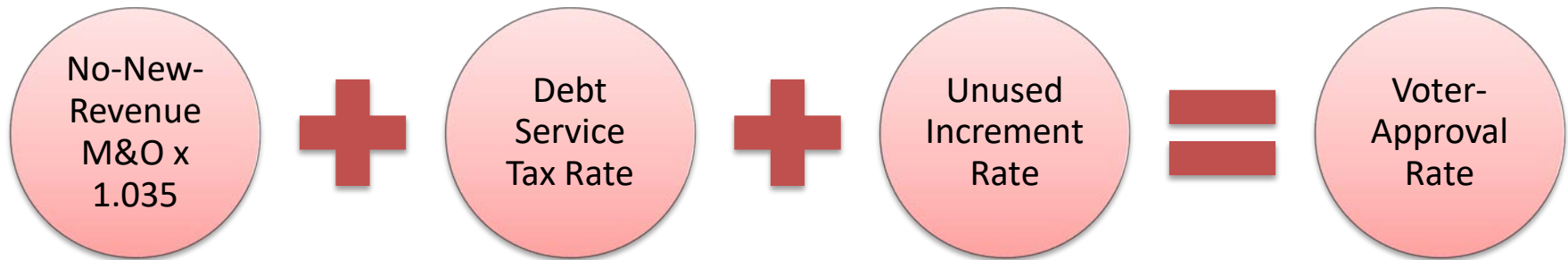
Where Do Cities Get Their Money?

- Property Taxes – 35%
- Sales Taxes – 23%
- Franchise Fees – 6 %
- Permits/Fees – 8%
- Transfers from other funds – 2%
- Court Fines – 1%
- Interest Earnings – <1%
- Federal/State Grants - 1%
- Other Sources – 22%

Some Vocabulary

- “Rate”
 - A multiplier that, when multiplied against the appraised value of a landowner’s real property, calculates the property tax burden for that property.
- Maintenance and Operations
 - Any lawful purpose other than debt service
- No New Revenue Maintenance and Operations Rate
 - A tax rate that would raise the same amount of revenue as last year’s M&O tax levy using current property values
- Debt Service Rate
 - A tax rate that would raise enough revenue to pay principal and interest due in the year on “debt.”

Voter-Approval Rate Calculation



- Essentially a tax rate that raises 3.5% more revenue from property tax than the prior year (plus unused increment).
- No automatic approval election if a city adopts VAR or lower rate.

Unused Increment Rate

- 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

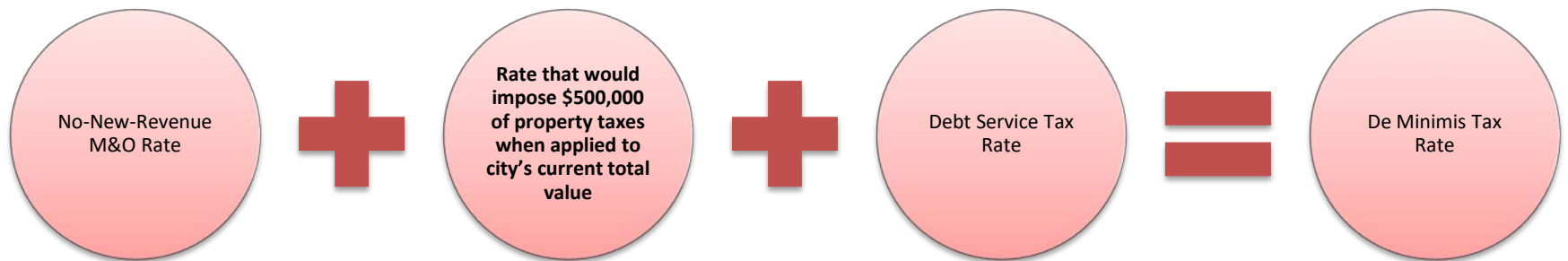


Unused Increment Example

Year	Voter-Approval Rate	Adopted Rate	Difference
2021	.50000	.50000	0
2022	.50250	.50000	.00250
2023	.51000	.50000	.01000

In 2024, the city would have an unused increment rate of .01250, which would be factored into the voter-approval tax rate formula.

De Minimis Rate, defined



- Essentially a tax rate that provides \$500,000 in additional revenue over prior tax year
- Tool for cities under 30,000 population
- No automatic election if adopted

Unexpected Results

	Total Taxable Value	No-New-Revenue M&O Tax Rate	Rate necessary to generate \$500,000	Debt Service Tax Rate	De minimis Rate	Voter-Approval Rate (Assuming Unused Increment Rate of zero)
Small City	\$35,000,000	.3456	1.4285	0	1.7741	.3577

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.



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 approval election when city adopts a tax rate for the year following the year in which a disaster occurs.
- Physical damage required.



Post-Disaster VAR Adjustment

- City has to back out the compounding 8% revenue increases from prior disaster years.
- Emergency revenue rate is essentially the difference between the previous year's adopted rate and the voter-approval rate calculated as if the taxing unit adopted the 3.5 percent voter-approval rate at each opportunity during disaster.

Voter Approval

Automatic Election

- City over 30,000: adopts a tax rate exceeding the voter-approval rate
- City under 30,000: Adopts a tax rate exceeding the VAR and de minimis rate

Petition for Election

- City under 30,000 that adopts tax rate lower than de minimis but higher than special taxing unit VAR
- If voters do not approve, the tax rate is VAR
- Tax rate approval election held on November uniform election date.

Tax Rate Adoption Timeline

- **July 25th** – Chief Appraiser certifies the appraisal roll or provides a certified estimate (Tax Code Sec. 26.01).
- **August 7th** – Notice of tax rates, M&O and I&S balances, and debt obligation schedule posted to city’s website.
- **Record Vote on “Proposed” Tax Rate** (Tax Code Sec. 26.06)
- **Hearing** – One tax rate hearing must be held starting at least five days after notice of hearing is given (Tax Code Sec. 26.06(a)).
- **71st day before November Uniform Election Date** – last day to adopt a tax rate exceeding the voter-approval tax rate. (Tax Code Sec. 26.05(a)).
- **September 30th** – Last day to adopt tax rate that doesn’t exceed voter-approval tax rate (Tax Code Sec. 26.05(a)).
- **November 8th** – Election Day

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



Failure to Comply With State Law



Misc: Fiscal Year

- Why do cities use an Oct. 1 – Sept 30 fiscal year?
 - Counties: Calendar Year
 - State: Sept 1 – Aug 31
- Tex. Loc. Gov't Code Ch. 101 allows cities to set their own fiscal year.
- A calendar year FY could ease tax rate election pressures.

Contacts

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 - comptroller.texas.gov

