



# Dock & Roll: Navigating Your Property Tax Rate Calculation



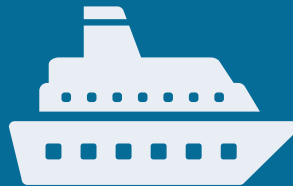
*Susan Morgan & John Zagurski  
GFOAT Spring Conference – April 2025*

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# SESSION OVERVIEW

- Getting on Board
  - Getting Ready
  - Roles & Responsibilities
  - Process & Publications
- Rough Seas
  - TIRZ & TIFs
  - Excess Debt Collections
  - Appraisal Rolls
- Arriving in Port
  - Tips
  - Questions

# Getting on Board



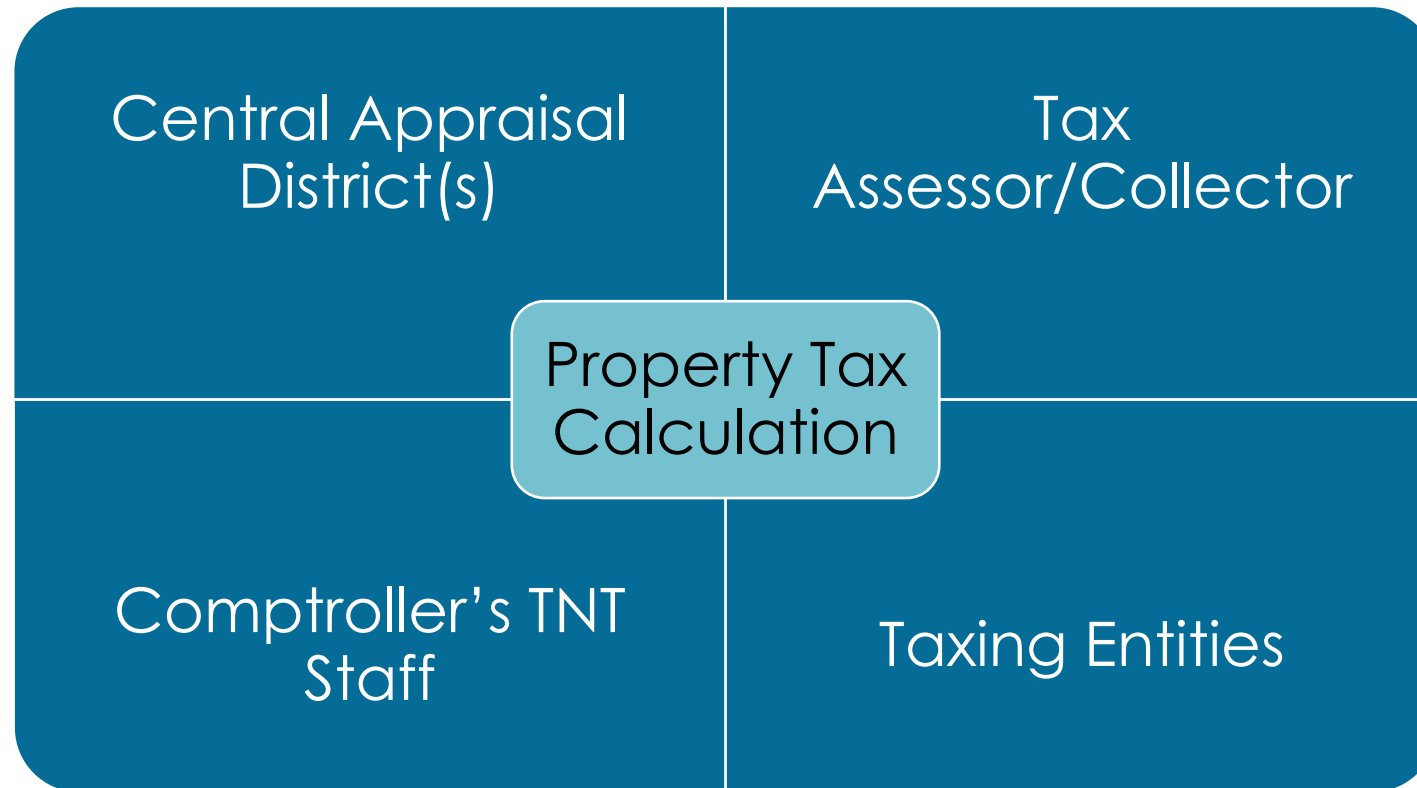
# Getting Ready

- Prepare early! Expect some changes and clarifications for 2025
  - Remember, the legislature is in session!
  - There could be changes for Tax Year 2025 and will almost certainly be changes for Tax Year 2026
- Read the Tax Code and have a check list ready
  - Do a practice run through with prior year forms and data
  - Document your calculations every year and be consistent
- Check your charter and ordinance requirements ahead of time

# Getting Ready, continued

- Make sure you understand your appraisal roll and property values
  - Talk to your tax assessor collector(s) – **early and often**
  - Talk to you chief appraiser(s) – **early and often**
  - TACs and CADs do prepare and interpret details differently
- New forms probably won't be ready until mid-July or later
  - Remember, the legislature is in session!

# Roles & Responsibilities



# Overview of the Process

- **Governing Body Develops Budget**
- Appraisal District Provides Preliminary Value (April 30) and Certified (July 25)
- Tax Assessor Calculates Rates, May Publish Notices
- Governing Body Proposes Rate/Holds Hearings
- Governing Body Adopts Tax Rate
  - Governing body must adopt a budget *first*
    - *Can be done at the same meeting as tax rate*
    - *Consult your city attorney and TAC if your charter requires more than one reading*
  - Governing body adopts a separate resolution if raising tax revenues
- Tax Assessor Mails Bills

*Note: De Minimis (pop. under 30,000) & Small Cities (levy below \$500,000/rates less than \$0.50) are slightly different*

# Publications & Numbers

- **Question:** Your numbers don't match up – do you have a spreadsheet error?
- **Question:** Why are all these numbers different? There you go, trying to confuse the public again!
  - **Answer:** *No errors. Each publication comes from a different section of the statute*
  - **Answer:** *Intent of the legislature is to provide multiple views of the tax rates and revenues*
  - **Answer:** *And, yes, it is still very confusing!*

# REQUIRED TAX & BUDGET PUBLICATIONS

- Two governing statutes
  - Texas Tax Code, Section 26
  - Texas Local Government Code, Chapter 102
- Each require specific language, timing, location, and sometimes even font size
  - Websites, newspapers, budget documents, public access channels, motions and ordinance wording
- Intent of all is to provide uniform and proper notice and information to taxpayer
  - Sections were adopted at different times for different purposes
  - ***Creates lots of perceived conflicts in the data!***

# REQUIRED TAX & BUDGET PUBLICATIONS

- **Motion** – Increase over **no-new-revenue rate**

“I move that the property tax rate be increased by the adoption of the tax of \$0.342000, which is effectively a **4.8 percent** increase in the tax rate.”

Property Tax Code Sec. 26.05(b)

- **Publication** – Increase in **budgeted revenues**

“This *budget* will raise more revenue from property taxes than last year’s *budget* by an amount of \$4,795,437 which is a **6.8 percent** increase from last year’s budget, and of that amount \$1,445,056 is tax revenue to be raised from new property added to the tax roll this year.”

Local Government Code Sec. 102.005(b)

- **Ordinance** – Increase in taxes for **maintenance and operations**

The tax rate will effectively be raised by **2.9%** and will raise taxes for M&O on a \$100,000 home by approximately \$6.43

Property Tax Code Sec. 26.05(b)(1)(B)

- **Newspaper Notice** – Increase in **tax levy**

Total tax levy on all properties increased \$4,761,433 or **6.86 percent**

Property Tax Code Sec. 26.06(b-2)

*NOTE: These represent some, but not all the various required publications*

# REQUIRED MOTION LANGUAGE

- **Motion** – Increase over *no-new-revenue rate*

“I move that the property tax rate be increased by the adoption of the tax of \$0.342000, which is effectively a **4.8 percent** increase in the tax rate.”

*Property Tax Code Sec. 26.05(b)*

Proposed Tax Rate	\$0.342000
No New Revenue Tax Rate*	\$0.326408
<b>PROPOSED INCREASE</b>	<b>1.6 cents</b> <b>+ 4.8 %</b>

\* Not impacted by current year sales tax for property tax reduction

# REQUIRED PUBLICATION LANGUAGE

- **Publication** – Increase in ***budgeted revenues***

“This *budget* will raise more revenue from property taxes than last year’s *budget* by an amount of \$4,795,437 which is a **6.8 percent** increase from last year’s budget, and of that amount \$1,445,056 is tax revenue to be raised from new property added to the tax roll this year.”

Local Government Code Sec. 102.005(b)

Revenues from new property	\$1,445,056
Additional revenues over FY 2021 <i>Budget</i> *	3,350,381
<b>TOTAL INCREASE</b>	<b>\$4,795,437</b>
	<b>+ 6.8 %</b>

\* Due to 1.6 cent increase

# REQUIRED ORDINANCE LANGUAGE

- **Ordinance** – Increase in taxes for maintenance and operations  
The tax rate will effectively be raised by 2.9% and will raise taxes for M&O on a \$100,000 taxable value by approximately \$6.43  
Property Tax Code Sec. 26.05(b)(1)(B)
- The tax rate is made up of two components – the M&O rate and the debt rate
- The City's 4.8% total rate increase based on separate calculation that does not take into account current sales tax or the two components. The conflicting separate M&O calculation is created by the sales tax for property tax reduction component of the calculation

Proposed M&O Rate	\$0.224400
Debt Rate	\$0.117600
<b>Proposed Tax Rate</b>	<b>\$0.342000</b>

Proposed M&O Rate	\$0.224400
No-New-Revenue M&O Rate	\$0.217966
<b>Calculated Increase</b>	<b>\$0.006434</b>
	+ 2.9%

# TAX RATE NOTICE

Notice of Public Hearing on Tax Increase, as published

	2021	2022	Change
Total tax rate	\$0.397	\$0.342	13.85% decrease or \$0.055
Average homestead taxable value	\$322,459	\$366,809	13.75% increase
Tax on average homestead	\$1,280	\$1,254	2.03% decrease or \$26
Total tax levy on all properties	\$69,428,717	\$74,190,150	6.86% increase or \$4,761,433



Per Property Tax Code Sec. 26.06

# TAX RATE NOTICE

## **Total Tax Rate**

- Presents adopted rates NOT adjusted for change in values
- Compares nominal rate to nominal rate
- Does highlight the rate decrease when values rise

## **Average Homestead Taxable Value**

- Based on **Average** taxable value, not **Median**

## **Tax on Average Homestead**

- Average taxable value and nominal rate for each year
- Compares two different data sets

## **Total Tax Levy on All Properties**

- Prior year is based on actual collections
- LGC 102.005 notice is based on prior year budget
- Current year levy is as calculated based on strict calculation of levy
- City's budget reflects expected collections on properties still in ARB

# MEDIAN VS. AVERAGE

- The **Median** is the middle value in a dataset
- Half the homes are higher in value, and half the homes are lower in value
- Has been CORR standard indicator for taxable home values
- The **Average** is found by dividing the sum of all values by the number of items in a dataset
- Starting in 2019 law now requires use of average in notice publication

	<b>Median</b>	<b>Average</b>
Current Year Value	\$369,169	\$366,809
Prior Year Value	\$287,101	\$322,459
Change from Prior Year	\$82,068	\$44,350
Percent Change	28.6%	13.8%

# Rough Seas

## Issues with the Calculation





# The Trouble with TIRZs Part 1.

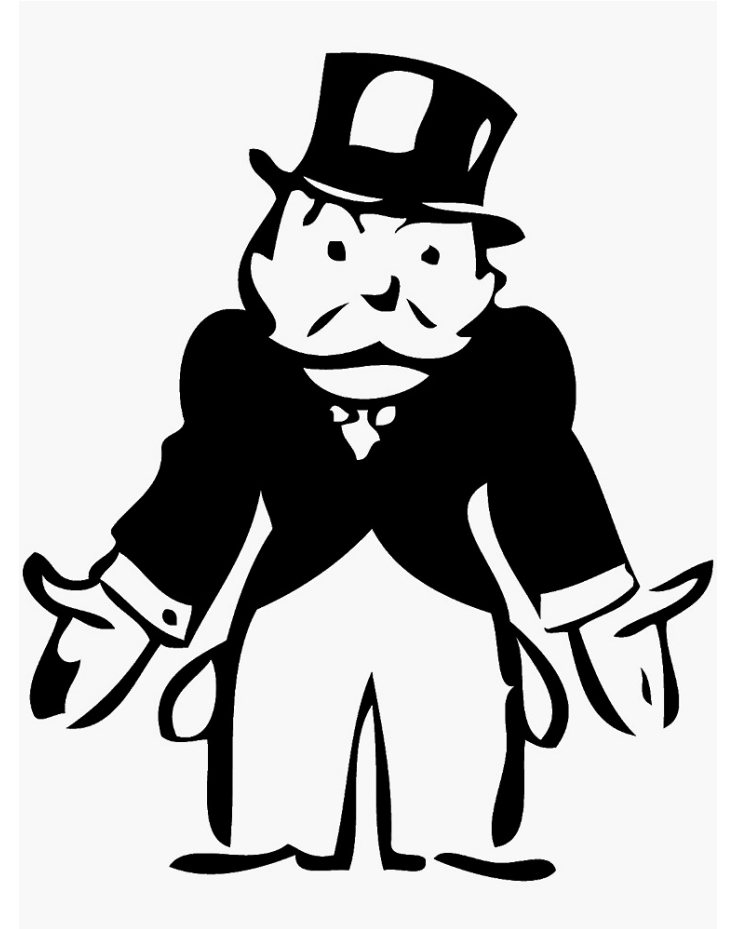
- A TIRZ increases the impact of the SB2 revenue cap, accelerating the decrease in the tax rate and decreasing your overall revenue. It also shifts the tax burden to residential taxpayers.
  - Why?
    - Residential Values are increasing faster than Commercial Values
    - You are decreasing your tax base in tax rate calculation.



Microsoft Excel  
Worksheet

# The Trouble with TIRZs Part 2.

- If you have a TIRZ and your municipality contributes at a rate higher than your MO/Total Tax Rate,
  - Then you will consistently show that you are collecting more in debt service than what is being shown as revenue in your I&S fund.
  - This will result in your municipality showing to have excess debt collections when that revenue went to the TIRZ
  - You will then have to come up with another revenue source to pay your debt services





TACTICS TO  
MITIGATE  
EXCESS DEBT  
COLLECTIONS



## Solution #1

- Increase your debt calculation by the difference, negating the impact.
- Pros:
  - This will offset any loss revenue
  - It will show up as debt you are not going to issue during the year
  - Simplest method
- Cons:
  - Not Transparent
  - Disingenuous



## Solution #2

- Plan to use other revenues to pay for debt, knowing you will face a revenue shortfall.
- Pros:
  - Transparent (kind of)
- Cons:
  - Revenue diverted from other sources

# Understand the Appraisal Roll(s) & Check Them Twice

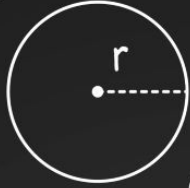
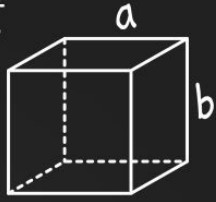
- Review what changed from prior years –use your preliminary certified estimate and start now!
- Examples:
- Compare amount in Section 5 and 6 to prior years
  - Are these amounts included in your total prior year tax roll? You may need to adjust your worksheet
  - Is your CAD estimating the amounts in 6B? Make sure you understand how this is calculated BEFORE it is certified
- Business Personal Property –can vary widely year to year
- Do the exemptions make sense?




# Arriving in Port

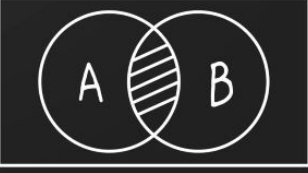
## *Tips & Tricks*



$\pi = (r-e)^2$      $\pi$      $(x+y)^2 - (x-y)^2$      $E = mc^2$   
 $f(x) = ax^2 + bx + c$          $\frac{a}{\sqrt{b}}$      $\frac{1}{5} + \frac{3}{6}$     

$\beta$      $\sqrt{9}$      $y = 3x + 6$      $\frac{2}{3} + \frac{4}{6}$      $X + Y = 3$      $Y = \cos x - \sin x$      $\sin(-a) = -\sin a$      $Y = x^2 - \frac{384}{153} - \frac{231}{231}$

     $Me = X + B \left[ \frac{\frac{n}{2} - z}{g} \right]$      $\psi$

$x = \frac{-b \pm \sqrt{b^2 - 4ac}}{2a}$     

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# PROPERTY TAX ABATEMENTS VS. REIMBURSEMENTS



# Balancing your Tax Rate – Tips & Tricks

- Try and keep your I&S Rate Flat (don't let it drop – maintain the “effective” debt rate)
- As your M&O decreases you can shift rate over to your I&S and still decrease your tax rate
- You can structure debt to maintain your I&S rate by adjusting your first payment when issuing
- The VAR is a total rate calculation,
  - There is not a law currently that ties you to your published tax rate split, just your total tax rate.

# Balancing the M&O and I&S

- Starting early and planning is important
- What are your M&O needs?
  - What is happening to sales tax if you have a property tax adjustment
  - There is an overlap – make sure you don't take in account adjustments in the overlap quarter
    - NNR M&O Line 40.A. – October to September receipts (prior FY)
    - Add'l Sales & Use Tax Line 52 – July to June => July thru September of prior year overlaps
- Look at your I&S needs
  - What is your amortization schedule for not just this year, but for the next 2 to 5 years
  - Do you have other contributions?
    - Self supporting; Support from other funds; Impact fees; Interest earnings; Excess fund balance(s)
  - If you levy it for debt, it must be used for debt, however: under levying is a bigger problem than excess collections

# Final Tips

- Prepare early! Expect some changes and clarifications for 2025
  - Remember, the legislature is in session!
  - There could be changes for Tax Year 2025 and will almost certainly be changes for Tax Year 2026
- Read the Tax Code and have a check list ready
  - Do a practice run through with prior year forms and data
  - Stay consistent with prior years
- Talk to your chief appraiser(s) and tax assessor collector(s) – **early and often**
- New forms probably won't be ready until mid-July or later
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# Final Tips, continued

- Check your website, taxpayer website(s) and links before, during and after the adoption process
- Reach out to your finance director friends at other cities
- **Caution:**
  - Be careful about copying other cities or prior years without understanding what may be different for your city
  - Citizens are getting more and more educated. Be prepared to support your data!
- Questions? Help?
  - TML, Comptroller's TNT staff, your City Attorney and GFOAT
  - Other Presentations: *I&S Rate presentation at Fall 2024 GFOAT by Steven Murray & Tania Askins, Hilltop Securities*

# Compliance With State Law



- Failure to adopt by deadline
  - Defaults city to lower of NNR or prior year tax rate
- Failure to comply with TNT
  - Any taxable property owner can challenge if failure to comply *was not in good faith*
- Good faith: consistency, consultation and documentation very important!
- But remember, there is no *Property Tax Police*

# Legislative Storm Watch



# Questions

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