

What is Truth-in-Taxation?

Chapter 26 of the Texas Tax Code is dedicated to procedures that taxing units must follow to inform taxpayers about their property tax bills. Effective tax rates must be calculated, and taxes are limited to 8% annual growth for taxing units, other than school districts, without the possibility of elections. TTARA looks at the process to see if truth is really being provided to taxpayers.

Things to Know

- Truth-in-taxation is the process that local taxing units must follow to approve property tax rates.
- Its purpose is to inform taxpayers annually about property taxes that will be imposed to pay for local taxing unit budgets and to promote accountability and transparency in the process.
- Public notices and hearings are required.
- Voters are permitted to petition local taxing units if proposed taxes exceed a certain level; elections are mandatory for school districts in such cases.
- Property owners can file lawsuits to force local officials to follow the law regarding tax rate hearings, notices, calculations, and amounts.

Tax Rate Setting

Tax rates are determined every year by local taxing units—school districts, cities, counties, and special districts created for junior colleges, hospitals, municipal utilities, emergency services, and other functions. Rates—expressed in cents per \$100 of valuation—must be **adopted** by the governing bodies of these units before the later of September 30 or the 60th day after the date that the taxing units receive their certified appraisal rolls. Specific motions must be made to adopt the rates. If not adopted by the deadline, the tax rate for that year is the lower of the effective tax rate or the tax rate adopted in the prior year.

So, what is an “**effective tax rate**”?

For jurisdictions other than school districts, it is the tax rate that would raise the same tax revenue as the prior year based on current year values. In other words, it is a “no-new-revenue” rate. The effective tax rate for school districts is the rate that would raise the same amount of state and local revenue per student that the school district raised in the prior year. If values increase in a taxing unit, the effective rate would be less than the tax rate that was adopted in the prior year. The formula is straightforward:

$$\frac{\text{Last Year's Levy} - \text{Lost Property Levy}}{\text{Current Total Value} - \text{New Property Value}}$$

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The underlying calculations for levy and value, however, are subject to numerous deductions and exceptions provided in law and determined by the taxing unit officer or designee. As a result, the calculations are complicated, and a worksheet created by the Comptroller of Public Accounts is typically used to determine the effective tax rate.

What is the “rollback tax rate”?

The rollback tax rate is the rate that would raise additional revenue over the effective tax rate without triggering an optional petition process for reducing an adopted rate for taxing units other than schools, or a mandatory ratification election for schools. The formula for taxing units other than schools, permitting an 8% increase in revenue, is:

$$\begin{array}{c} \text{(Effective Maintenance and Operations Rate X 1.08)} \\ + \\ \text{Current Debt Rate} \end{array}$$

The rollback tax rate for schools permits an increase of 4 cents over the effective rate, without triggering a ratification election.

Notices and Public Hearings

Each taxing unit must calculate its effective and rollback tax rates and notify the public—a requirement that is typically satisfied by publishing them in the local newspapers. Public hearings are required to consider proposed tax rates if they exceed the lower of the effective tax rate or the rollback tax rate.

Simplified newspaper notices are allowed for cities and counties if proposed tax rates do not exceed the lower of the effective or rollback tax rate. Even more simplified notices are authorized for taxing units with tax rates of 50 cents or less imposing taxes of \$500,000 or less.

For taxing units other than school districts, two public hearings are required to consider proposed rates that exceed the lower of the effective or rollback tax rate. The notices of public hearings may not be smaller than one-quarter page of a standard or tabloid-size newspaper with a headline in at least a 24-point type. Specific wording is required for the notices of tax increases.

Another notice required to be published concerns the public meeting at which the governing body of a taxing unit, other than a school district, will vote on the tax rate. Specific wording is also required for this notice. The meeting may not be held earlier than the third day or later than the 14th day after the date of the second public hearing. Notices must also be posted on a taxing unit’s website, if one exists, and 60-second notices on free access television, if available, must be aired.

School districts and water districts have different notice and publication requirements in the Education Code and the Water Code.

Voter Approval and Disapproval

Taxing units that adopt a tax rate higher than the rollback rate, other than school and water districts, are subject to a petition process whereby voters may demand that an election be held. Either 7% or 10% of registered voters, depending on tax levy, may submit a petition to the governing body of a taxing unit within 90 days after tax rate adoption to call an election. If successful, the adopted tax rate would be reduced to the rollback tax rate—still an 8% increase over the prior year.

School districts have automatic elections if the adopted rate exceeds the rollback tax rate. Called tax ratification elections (TRE), the vote is to accept—or ratify—the adopted rate. If the proposition is not approved, the school board may not adopt a tax rate for the current year that exceeds the rollback tax rate.

Judicial Remedies

If a taxing unit fails to follow the computation or publication requirements of law regarding effective and rollback tax rates, a property owner is permitted to seek an injunction to prohibit the governing body from adopting a tax rate. The failure to comply must be shown to have not been in good faith.

In addition, a property owner may seek an injunction to restrain the collection of taxes if the taxing unit did not comply with the tax rate setting process and the failure was not in good faith. The action must be filed prior to the date a taxing unit delivers substantially all of its tax bills.

