

## **Statutory Requirements**

### **Truth-in-Taxation**

The Texas Constitution and Property Tax Code establish guidelines for taxing units to follow when adopting tax rates. This guide to tax rate setting is also known as “truth-in-taxation.” The truth-in-taxation laws have two purposes: (1) to make taxpayers aware of tax rate proposals and, (2) to allow taxpayers, in certain cases, to roll back or limit a tax increase.

The first step is to draft a budget and determine the amount of property taxes necessary to the fund that budget. The taxing unit must decide:

- a) The maintenance and operation (M&O) rate necessary for the general operating expenses based on current year's value;
- b) The payments needed for debt service; and
- c) The amount of surplus funds, if any, it plans to expend to reduce the tax levies.

Beginning in early August, the City can move forward to adopting a tax rate by calculating and publishing the effective and rollback tax rates.

**No New Revenue Rate:** The effective tax rate is a calculated rate that would produce the same total taxes as last year when properties taxed in both years are compared. If property values rise, the effective tax rate will go down and vice versa. The objective of the effective tax rate is to generate equal tax revenues using taxable valuations from different years.

**Proposed tax rate:** The proposed tax rate is the rate proposed by council and is used for revenue projection in the budget. The objective of the proposed tax rate is to generate sufficient revenues to balance the budget and inform the public of the rate the Council desires to fund the budget.

**Voter Approval Rate:** The rollback tax rate is a calculated maximum rate allowed by law without voter approval. The rollback rate provides the City the same amount of tax revenue spent the previous year for day-to-day operations, plus an 8% increase for those operations plus sufficient funds to pay debts in the coming year. If an adopted rate is higher than the rollback rate, voters can circulate a petition calling for an rollback to a rate below the rollback rate.

**Notice Requirements:** The law requires a number of public notices to be issued to inform the taxpayers about local property taxes.

1. **Notice of Appraised Value:** This notice informs a property owner of proposed property values and other necessary information including an estimate of current years taxes based on the current year's proposed taxable value and last year's tax rate.
2. **Notice of Proposed Tax Rate:** Cities that propose a property tax rate that does not exceed the effective tax rate must provide a notice using very specific language in the government code.
3. **Notice of Proposed Tax Rate Increase:** Cities that propose a property tax rate that exceeds the effective tax rate or the roll back rate must provide a different notice also using very specific language in the government code. This language must also include the date, place and time of the public hearings. It must also include the date, time, and place for adoption of the tax rate.
4. **Newspaper Requirements:** The newspaper posting must be in a general circulation newspaper in the county and must be at least a quarter-page in standard-size newspaper with a headline in 24-point larger type.
5. **Website Requirements:** The notice must be posted on the City website no later than Sept 1st and must remain on the website until the rate is adopted.
6. **Budget Requirements:** The front page of the budget must include council members voting and proposed, effective, and rollback rate for current and prior years.

**Hearing Requirements:** The law requires a number of public hearing to allow the taxpayers input regarding local property taxes.

**Public Hearing:** The council is required to hold two public hearing to receive taxpayer input no less than three days but no more than 14 days between hearings.

**Adoption of the Tax Rate Requirements:** The law requires that the council adopt a tax rate by official action in an ordinance that contains specific wording. The wording must indicate the change in the tax rate by amount and percentage increase or decrease. The tax rate must be adopted by a separate item on the agenda and must adopt the budget prior to the tax rate. The budget must then be ratified for the increase in the tax rate.

The deadline to adopt the tax rate is September 30th of each year or by the 60th day after the city receives the certified appraisal roll, whichever is later.