

A TAXING PROBLEM

A large, detailed illustration of a coin, possibly a quarter, with a man in a white shirt and dark pants pushing it. The coin is the central focus, with a man in a white shirt and dark pants pushing it from the bottom right. The background is a gradient of orange and yellow, suggesting a sunset or sunrise. The coin's surface is highly detailed, showing the profile of a person and intricate patterns. The man is leaning forward, pushing the coin with both hands. The overall scene is metaphorical, representing the difficulty of navigating tax issues.

**Districts Face
Tougher
Rollback
Elections
Since House
Bill 1**

by Catherine Clark

For 25 years, school district rollback elections were a rare event in Texas. Typically, about five school districts would call such elections each year so that the district voters might consider a board-adopted tax rate that exceeded the calculated rollback tax rate. In most elections, the board-adopted tax rate was upheld by the voters. If the voters did not uphold the board-adopted rate, the district's tax rate was "rolled back" to a lower rate representing a small increase.

Then, in May 2006, the Texas Legislature passed House Bill 1 (HB 1), creating a target revenue system for funding school districts and adjusting the tax rate calculation process, as well. The state required districts to compress maintenance tax rates and gave them the option of approving up to four cents of additional tax.

To increase local property tax rates further, school boards needed to adopt a higher rate and then submit the rate for voter approval at a tax ratification election (TRE). In most cases, failure to pass the TRE left the school district with the same tax rate as the prior year, not a slightly higher rate as was the case with the former rollback process.

A few months after passage of HB 1, 15 school districts held TREs in order to impose a higher tax rate; voters in 14 districts approved the higher tax rate. In 2007, 121 school districts held TREs, and 93 (77 percent) were approved. Last fall, 116 school districts held TREs, and 70 (60 percent) were approved. Several districts had TREs in more than one year. In all, 241 school boards have made the decision to raise tax rates and asked for voter approval. This is a marked change in tax rate setting compared with circumstances prior to 2006.

Reasons Behind the Rise in TREs

The school finance system that Texas implemented in 2006 now uses revenue targets for school funding. These targets, based on per-student revenue levels that are two or three years old, have not been adjusted for price increases, wage pressures, or the cost of new mandates. As a result, school districts developed budgets in 2007 and 2008 with many new constraints.

Locally adopted salary increases have been less generous than in past years, and some districts have been unable to adjust salaries at all. Districts report making program and staff cuts where possible, and many districts are now using fund balances to support ongoing operations.

Currently, the only way a school district can raise discretionary resources for pay raises, rising insurance premiums, higher utility costs, and other needs is by increasing the tax rate and conducting a TRE.

Clearly, the financial constraints facing school districts are creating hardship, pushing more than 240 districts to call costly elections to increase resources.

Taxing Authority

The authority to set property tax rates and levy a property tax belongs to governmental taxing units such as cities, counties, school districts, community college districts, hospital districts, and municipal utility districts. The governing board of the taxing unit sets the tax rate following the requirements in the Texas Tax Code. To give non-elected citizens some voice in the property tax process, the Texas Legislature established truth-in-taxation processes.

The first of these truth-in-taxation processes is the notice of appraised value that property owners receive in April, telling them the current value of their property on the appraisal roll and estimating, based on prior-year tax rates, what their tax levy might be at the current value. This notice offers the property owner the opportunity to protest the appraised value to a citizen panel called the Appraisal Review Board.

Another truth-in-taxation process is the calculation of an effective tax rate and rollback rate, along with requirements for posting this information prior to a vote to set the tax rate. These rates are explained below.

A third truth-in-taxation component is the opportunity for the voters to evaluate and approve tax rate increases through a rollback or ratification election. Provisions for ratification elections in school districts are different from rollback elections for other taxing units. Taxpayers petition for a rollback election

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in taxing units other than school districts when the adopted tax rate exceeds the rollback tax rate. In school districts, ratification elections occur *automatically* when the adopted rate exceeds the rollback rate.

Effective and rollback tax rates—school districts. Truth-in-taxation requires school districts to calculate two rates after receiving a certified appraisal roll from the chief appraiser: the effective tax rate and the rollback tax rate. School districts are not required to publish the effective tax rate but must publish the rollback rate in a public notice. A school district must also publish a budget summary on its Web site.

Once the school board adopts the budget and then the tax rate, it may need to administer a rollback election if the adopted rate exceeds the calculated rollback tax rate. Since the laws changed with House Bill 1 in 2006, school districts have begun to refer to “tax rate elections” or “tax rate increase elections” instead of “rollback elections.”

Calculating the school district rollback rate. The rollback tax rate for 2008 was a calculated rate that limited the school district tax rate to the lesser of two rates:

- (1) The sum .6667 times \$1.50 (or .6667 times the 2005 maintenance and operations [M&O] rate for school districts with 2005 M&O rates above \$1.50), plus four cents, plus the rate that is equal to the sum of any differences between the adopted tax rate and the rollback tax rate approved by the voters for 2006 and subsequent years, plus the current debt rate or
- (2) The sum of the effective M&O tax rate plus .6667 times .06 (this amounted to four cents in 2008) plus the current debt rate

To calculate the effective M&O rate, school districts are directed to use a state aid template developed at Region 13 Education Service Center. The debt service portion of the rollback tax rate is the current year’s debt payments divided by the current year’s property values. The debt service tax rate may rise as high as necessary to cover qualified debt expenses.

School district tax rate limitation. Texas Education Code Section 45.003 limits a school district’s M&O rate. The rate may not exceed the rate equal to the sum of \$0.17 and the product of the state compression percentage as determined by Section 42.2516, multiplied by \$1.50. The state compression percentage is currently 66.67 percent, so the M&O rate limit for most school districts is \$1.17.

A school district also may adopt a rate up to \$0.50 for “new” debt plus a rate for “old” debt. “New” debt is debt authorized after April 1, 1991, and issued after September 1, 1992; “old” debt is debt authorized prior to those dates.

If a school board adopts a tax rate that exceeds the calculated M&O rate plus the debt service rate, an election is automatically called to allow the voters to ratify the rate the school board adopted. The TRE cannot be held earlier than 30 days or later than 90 days after the date the board adopted the tax rate.

If a simple majority of the voters does not ratify the rate set by the school board, the school district must use the rollback tax rate when it sends out tax bills. If the majority votes in favor, the adopted rate stands. Following the election results, the school district will mail its current-year tax bills.

Effective and rollback tax rates—other taxing units. For other taxing units, the effective rate is a tax rate that would provide the taxing unit with the same amount of revenue as the prior year on properties taxed in the prior year and the current year. For taxing units other than school districts, the rollback tax rate has two components—an M&O rate and a debt service (I&S) rate.

In most cases, the rollback tax rate exceeds the effective tax rate. Occasionally, however, decreases in a taxing unit’s debt service will create a situation where the effective rate might be higher than the rollback rate.

For taxing units other than school districts, the M&O portion of the rollback tax rate is the tax rate that would be needed to raise 8 percent more operating funds than the unit levied in the preceding year. The debt service rate portion is the tax rate necessary to pay the unit’s debt payments in the coming year.

Totaling the M&O rollback rate and the debt service rate and multiplying by 100 (to convert to a rate per \$100 of value) gives the rollback tax rate for taxing units other than school districts.

For More Information

The Texas Comptroller of Public Accounts publishes *Truth-in-Taxation: A Guide for Setting School District Tax Rates*, available at www.window.state.tx.us/taxinfo/proptax/tnt08schools/. ★

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Next month: Making Plans for a TRE

