



Texas School Coalition

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ISSUE BRIEF

SIMILARITIES AND DIFFERENCES BETWEEN TAXING ENTITIES IN TEXAS

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PROPERTY TAX SYSTEM BASICS

Property taxes are local taxes that provide the largest source of money local governments use to pay for schools, streets, roads, police, fire protection and many other services. Texas law establishes the process followed by local officials in determining the value for property, ensuring that values are equal and uniform, setting tax rates and collecting taxes.

Texas has no state property tax. The Legislature has authorized local governments to collect the tax. The state does not set tax rates, collect taxes or settle disputes between you and your local governments.

Taken from the Texas Comptroller's Window on State Government website
<http://www.window.state.tx.us/taxinfo/proptax/basics.html>

Adopting a Budget and Tax Rate

Local officials in cities, counties, school districts, and special purpose districts (such as hospitals, junior colleges, or water districts) adopt tax rates on an annual basis that are applied to the appraised values of all nonexempt property in the state. Each taxing unit must determine the level of revenue required to provide services and pay for long-term debt, and then must hold a public hearing on their proposed budget and tax rate.

The taxing entity's effective tax rate is established based on the rate required to generate the same amount of revenue in the previous year on properties taxed in both years; therefore, if property values increase, the effective tax rate will decrease, or if property values decline, the effective tax rate will rise. The actual tax rate is determined by the budget that is adopted by the governing body of the taxing entity.

That budget establishes the level of services the entity will provide and the actual tax rate required to support those services. The programs and services outlined in each taxing entity's budget describe how tax revenue will be spent in that fiscal year. **The authority to spend public funds for any purpose depends on whether it serves a valid public purpose.**

Tax Rate Authority

With the exception to gaining approval from local voters for the sale of bonds to assume long-term debt, cities, counties, and special purpose districts cannot submit property tax rates to local voters for approval. In fact, these entities are prohibited from seeking such voter approval in any form other than a non-binding poll through an election. State law clearly spells out the process and procedures for adoption of city, county, and special district property tax rates, so such entities could not override those procedures through a voter referendum.

School districts, on the other hand, fall under a different set of laws. In the case of schools, the board of trustees has the authority to set a rate up to \$1.04, in the same manner that applies to all other taxing entities. If the board of trustees wishes to adopt a budget that requires a tax rate higher than \$1.04, then local voters must approve such a rate through a tax ratification election. A hard cap of \$1.17 exists for the tax rate that school districts may adopt to support the maintenance & operations of the district.

Tax Limits

Taxing entities may be limited in how much they may increase tax rates by the rollback rate. The rollback rate is set by taking the amount of tax revenue spent the previous year, plus an additional 8 percent for cities, counties, and special purpose districts.

The rollback calculation for school districts used to be the same as that of other taxing entities, however, then the Texas Legislature changed it to 8 cents and then 6 cents, and when school property tax rates were compressed by one-third, the rollback allowance was compressed by one-third as well. Therefore, the rollback calculation for school districts authorizes an additional four cents to the rate that maintains maintenance and operations revenue per student. However, regardless of what effective tax rates or rollback tax rates may be, school districts are subject to tax caps with a maximum rate of \$1.17 for M&O purposes, and must have voter approval for any rate above \$1.04, even if that rate does not exceed the rollback rate.

If a local taxing unit other than a school district adopts a tax rate higher than the rollback rate, a taxpayer may petition for an election to reduce the tax rate to the rollback rate. If a majority votes in favor of the tax rollback, the tax rate is reduced to the rollback rate immediately.

If a school district adopts a tax rate above the rollback rate, the law requires the school district to hold an election to ratify the adopted rate. If a majority votes against ratifying the school district's adopted tax rate, the school district's trustees must adopt a rate not exceeding the rollback rate.

Beneficiaries of Local Tax Revenue

When local taxing entities other than school districts assess a tax on property owners in their jurisdiction, the tax revenue collected goes toward paying for services and the repayment of local debt within that city, county, or special purpose district. Each penny of tax effort results in revenue for that entity. In other words, dollar for dollar, the taxes collected directly benefit the taxing entity in which the taxpayers' property is located.

For school districts, however, a different set of circumstances exist under state law regarding the revenue from local property tax collections. Not all school districts are able to keep all the revenue collected from local taxpayers.

The Texas Legislature adopted laws that require an equalization of the revenues collected by school districts. In the majority of instances, school districts keep all the revenue from local property tax collections, and then receive a supplement from the state school finance formulas to equalize funding. However, about one-third of school districts in the state are subject to the "Robin Hood" law, and they are required to send a portion of their local property tax revenue to the state so that no district has significantly more than another. Robin Hood applies to the pennies of tax effort for the purpose of supporting Maintenance and Operations of the school district. The additional tax rate the school district can assess for the repayment of debt is not subject to recapture.

All this looks different in each locality throughout the state, depending on the total property wealth that school district has, divided by the number of students. To illustrate how this works, the following example has been provided, using a single-family home located in Austin, with an appraised value of \$196,584.

	Tax Rate	Percent of overall tax rate	Taxable Value	Estimated Tax	% tax revenue remaining in jurisdiction
Austin ISD	1.242	50%	\$181,584	\$2,255.27	84%
City of Austin	0.5027	20%	\$196,584	\$988.23	100%
Travis County	0.4946	20%	\$157,267	\$777.84	100%
Travis County Health Care District	0.129	5%	\$157,267	\$202.87	100%
Austin Community College District	0.0949	4%	\$191,584	\$181.82	100%
Total Tax Rate:	2.4632	100%			
	Total Taxes w/Current Exemptions:			\$4,406.03	92%

While other entities keep 100% of their tax revenue for use in their jurisdiction, that is not the case for Austin ISD. The school district assesses a total tax rate of \$1.24, which breaks down as follows:

Purpose	Pennies of tax effort	% of tax	Subject to recapture?
Interest & Sinking (existing debt)	\$0.16	13%	NO
Maintenance & Operations (golden)	\$0.06	4.8%	NO
Maintenance & Operations	\$1.00	80.6%	YES, at a rate of 19%
Maintenance & Operations (copper)	\$0.02	1.6%	YES, at a rate of 49%

Local voters approved a portion of the total \$1.24 tax rate assessed Austin ISD to cover the cost of the District’s debt. That portion is currently \$0.16, or 13 percent of the total tax rate, and it is not subject to Robin Hood. The remaining \$1.08 of tax rate is assessed to cover the maintenance and operations costs. Six of those cents are exempt from Robin Hood, and the school district is able to keep 100% of the revenue generated from those pennies of tax effort. The \$1.02 that is subject to Robin Hood can be divided into two categories, with different percentages of the revenue that must be sent to the State. In total, 18.1% of what Austin ISD collects for the maintenance and operations of the district are not put to use in the Austin community, but rather contributed to the state.

In summary, school districts are subject to a different set of laws and requirements than other taxing entities. While cities, counties, and special purpose districts must receive approval from local voters to take on and service long-term debt, those entities have governing bodies responsible for adopting a budget and establishing the tax rate to support that budget, without a limit, unless someone petitions for an election because the rate exceeds that of the rollback rate. The governing body of a local school district, the board of trustees, must seek voter approval to tax above \$1.04, and may not tax above \$1.17, even if voters would approve such a rate. No similar limitations exist for other taxing entities. Additionally, and most importantly, school districts are the only taxing entity required to send a portion of their local tax revenue to the state. All taxing entities other than school districts maintain 100% of their local tax revenue to directly benefit the taxpayers who made that contribution.