

The Effective Tax Rate in Context: How to Explain Property Taxes to Elected Officials

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Truth-in-Taxation

- Article VIII, Section 21 (1978):
 - Subject to any exceptions prescribed by general law, the total amount of property taxes imposed by a political subdivision in any year may not exceed the total amount of property taxes imposed by that subdivision in the preceding year unless the governing body of the subdivision gives notice of its intent to consider an increase in taxes and holds a public hearing on the proposed increase before it increases those total taxes. The legislature shall prescribe by law the form, content, timing, and methods of giving the notice and the rules for the conduct of the hearing.

In the Beginning...

- 1978 – H.B. 18
 - Purpose of the bill according to Bill Analysis: “To restrict increases in total property tax revenues and to provide adequate notice to taxpayers when the tax rate exceeds the established effective tax rate.”
- Peveto Legislation in 1979 (S.B. 621)
 - Adoption of the Property Tax Code – 273 pages
 - Instituted rollback elections

What is the Effective Tax Rate?

- The effective tax rate is a hypothetical property tax rate that would give the city the same amount of revenue it had in the previous fiscal year.

Last Year's Total Adjusted Property Taxes	÷	Current Year's Total Adjusted Property Value	=	Effective Tax Rate
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The “Seesaw” Effect

- The effective tax rate will vary depending on increases or decreases in appraised values of the same properties since the previous fiscal year.
 - Appraised values \uparrow , effective tax rate \downarrow
 - Appraised values \downarrow , effective tax rate \uparrow
 - Appraised values stay the same, so does effective tax rate



Why is the Effective Rate Important?

- Exceeding the effective tax rate triggers hearing requirements in larger cities, as well as various other “truth-in-taxation” requirements for all cities.

TML Fiscal Conditions Survey

Change in Property Tax Rates (Percent of All Cities)						
	2009	2010	2011	2012	2013	2014
No Change	42.6%	49.7%	42.3%	47.1%	52.6%	49.4%
Raised Rate	33.5%	34.8%	43.0%	36.3%	30.4%	33.2%
Reduced Rate	23.9%	15.5%	14.7%	16.6%	17.0%	17.4%

Adopted Tax Rate Relative to Effective Tax Rate (Percent of All Cities)						
	2009	2010	2011	2012	2013	2014
Higher than Effective Rate	63.2%	45.4%	35.9%	38.1%	40.1%	49.2%
Same as Effective Rate	26.2%	31.3%	37.9%	35.3%	24.3%	20.2%
Lower than Effective Rate	10.6%	23.3%	26.2%	26.6%	35.6%	30.6%



What is the Rollback Tax Rate

- The rollback rate allows a unit to raise the same amount for operations as in the prior year, plus provides for an 8% cushion.

Why is the Rollback Rate Important?

- Exceeding the rollback rate allows citizens to petition the city to hold an election that would “roll back” the tax rate to the rollback rate.



New(ish) Truth-in-Taxation Reforms

- H.B. 3195 (2007) (LGC Sec. 102.005)
 - Cover sheet for proposed budget
 - Must include statement if budget will “require raising more revenue from property taxes than in the previous year.”
- S.B. 656 (2013) (LGC Secs. 102.007 and 102.008)
 - Cover sheet for adopted budget
 - Statement if budget raises more, less, or the same amount of property taxes as previous budget
 - Record vote, and various tax rates included on cover sheet
- S.B. 1510 (2013) (LGC Sec. 140.010)
 - Simplified tax rate notice

Future Legislation?

- Revenue Caps
- Appraisal Caps
- Abolition of Property Tax?