Basic Legal Requirements for Budget and Tax Rate

SARAH TOMPKINS
LEGAL COUNSEL
TEXAS MUNICIPAL LEAGUE

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Resources

- Texas Comptroller of Public Accounts, Property Tax Assistance Division
  - *comptroller.texas.gov*
- TML Legal Research under Policy tab
  - *Deadline memos*
  - *Revenue manual*
  - *Chapter 26 Q&A*
  - *Budget Q&A*
  - *Legislative update articles*
- Contact a Texas Municipal League attorney
  - *512-231-7400*
  - *legalinfo@tml.org*

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Overview

- Budget Adoption
  - Proposed budget
  - Hearing
  - Adoption
  - Timelines and notice requirements
  - Interaction with tax rate adoption process
- Tax Rate Adoption
  - Tax rates and interaction with total value
  - Proposed tax rate
  - Hearing
  - Adoptions
  - Timelines and notice requirements
  - Interaction with budget adoption process

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Audits

- Annual municipal audit required (Chapter 103)
- Due date is 180 days after the end of the fiscal year (so March 28 for 2026, which was a Saturday)
- Consequence is that a city is limited to the no-new-revenue rate for the tax year beginning on or after the date of the attorney general's determination

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The Law Governing City Budgets

- Texas Local Gov't Code Chapter 102
- City charters
- City ordinances and policies
- Other law (like Chapter 26, Tax Code

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Proposed Budget

- Prepared by **budget officer**
- Filed with city secretary at least 30 days before tax rate adoption
- Available for public inspection
- Posted on city's website if the city has one (§ 102.005, Loc. Gov't Code)
- Or other website if city does not have one (§ 26.18, Tax Code)
- TOMA requirement

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Cover Sheet if Budget Raises More Money From Property Tax Than Last Year

A proposed budget that will require raising more revenue from property taxes than in the previous year must contain a cover page with the following statement in 18-point or larger type:

"This budget will raise more total property taxes than last year's budget by (insert total dollar amount of increase and percentage increase), and of that amount (insert amount computed by multiplying the proposed tax rate by the value of new property added to the roll) is tax revenue to be raised from new property added to the tax roll this year."
§ 102.005(b), LGC

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Who is the Budget Officer?

- Either the **mayor** or the **city manager** (§ 102.001, Loc. Gov't)
- The budget officer is tasked with:
  - Preparing the budget (§ 102.002)
  - Itemizing the budget (§ 102.003)
  - Gathering information(§ 102.004)
  - Filing proposed budget with the city secretary (§ 102.005)
  - Providing for the filing of the approved budget and any amendments with county clerk (§ 102.009)

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Proposed Budget

- § 102.003 requires:
  - Itemized **comparison** between expenditures in the proposed budget and in the preceding year
  - Must show the estimated amount of money for each project or expenditure
  - A **financial statement** that shows:
    - Outstanding obligations
    - Cash on hand in each fund
    - All funds received during preceding year
    - All funds available for ensuing year
    - Estimated revenue available to cover proposed budget
    - Estimated tax rate needed to cover proposed budget

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Special Required Line Items

- The proposed budget must contain a line item comparing expenditures in this budget and actual expenditures in the preceding year for:

1) Notices required to be published in a newspaper; and
2) Directly or indirectly influencing or attempting to influence the outcome of legislation (§ 104.0045, Loc. Gov't Code)

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Required Hearing

- Time window for hearing (§ 102.006)
  - *After the 15th day after the proposed budget is filed with the city secretary*
  - *Before the date of the tax levy*
  - *Could occur on the same day as the tax rate hearing, but not the tax rate adoption*
- Notice of hearing (§ 102.0065)
  - *Published in the newspaper*
    - *Between 10 and 30 days before the hearing*
  - *Statement if budget requires more property tax revenue than last year*
  - *New required information from HB 1522, discussed on the next slide*
- Action at end of the hearing
  - *Adoption or vote to postpone final budget vote*

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H.B. 1522 89th Leg. R.S. (2025)

- Effective September 1, 2025
- Applies to a "meeting to discuss the budget"
- Proposed budget must be physically included in meeting notice unless clearly accessible on the website
- Taxpayer impact statement must be included
- Taxpayer impact statement is a comparison of a hypothetical tax bills based on the median-valued homestead property for both the current fiscal year and upcoming fiscal year:
  - *if the proposed rate is adopted*
  - *if the no-new-revenue rate is adopted*

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Budget Adoption

- Ordinance or resolution
- Before tax rate adoption and after hearing
- Record vote (§ 102.007(a))
- Separate ratification vote if budget raises more money from property tax than last year (§ 102.007(c))
- Cover sheet
  - States whether budget raises more, less or the same amount of property tax as last year
  - Various tax rates (discussed later)
- Post on website (city or other) (§ 102.008 and Tax Code § 26.018)

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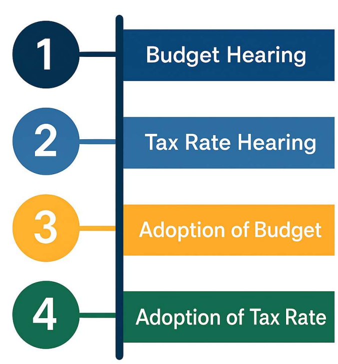
Order of operations

- One day must pass between numbers 1 and 4.
- Other than that, things can be combined
- Minimum 2-day process



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Amendments

- City may only spend money in "strict compliance" with the budget
- Changes require an amendment, even after council approves of the purpose
- Ordinance or Resolution
  - Act of equal dignity

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Two Types of Amendments

Moving money from one purpose to another, similar purpose (moving from one line item to another)

- Changes for Municipal purposes
- § 102.010

Adopting a new expenditure (adding a line item)

- Grave Public Necessity
- Unusual, unforeseen, unforeseeable
- § 102.009(c)

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Failure to Comply with State Law

- Limited to no-new-revenue rate, if missed audit deadline
- Definitely a hard time with audits and bond rating
- Budget could be subject to challenge in court

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The Law Governing Property Tax Rate Setting

- Chapter 26, Tax Code
- Premised by the concept of Truth in Taxation
- Property tax rate consists of two components
  - Maintenance and operations (M&O)
  - Debt Service (I&S)
- Consistent revenue source

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Broad Overview of Tax Year

- The chief appraiser calculates or estimates the total value of property in the city
- City adopts a tax rate following the procedures and timelines laid out in Chapter 26, Tax Code.
- Generally, the city's property tax revenue will be the product of the adopted tax rate times the total value.

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Tax Rate Terms to Know

- No-new-revenue rate
- Voter-approval rate
- Unused increment rate
- De-minimis rate

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No-New-Revenue Rate

- The rate that produces the same amount of revenue that was produced last year from the same properties (new property is excluded, lost levy is excluded)
- Varies in inverse proportion to property values
- Usually lower than the voter-approval rate, but not always

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Voter-Approval Tax Rate

- The rate that would produce the same amount of M&O revenue as last year + 3.5% + the current debt rate + the unused increment rate
- This is the rate that sometimes triggers an automatic election
- This rate is calculated differently for a special taxing unit, but very few cities are special taxing units

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Unused Increment Rate

- “Banks” revenue that cities could have raised if they had adopted the voter-approval rate in the preceding years
- The “foregone revenue” amount is that banked amount. Added in to the VATR is the rate that would produce this amount of revenue
- Three-year cycle

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De Minimis Rate

- The no-new-revenue M&O rate + a rate that would raise $500,000 + current debt rate
- This is only useful for small cities in which this rate exceeds the VATR

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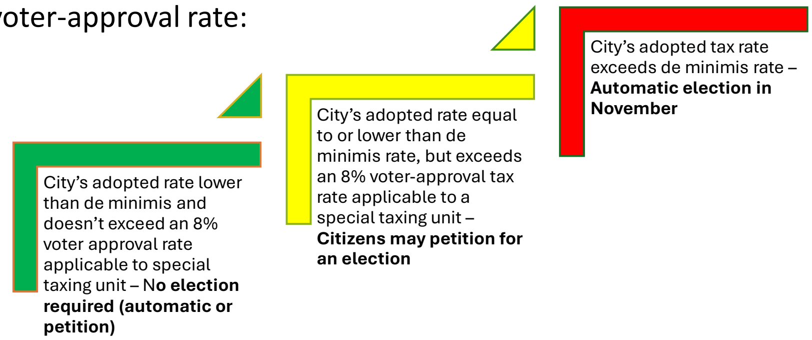
De Minimis Rate, Illustrated

The following applies to a city with a population under 30,000 and assumes the de minimis rate exceeds the 3.5 percent voter-approval rate:



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Special Provisions for Disasters

- Must be a disaster that causes physical damage
  - At least one property that claims the exemption for property destroyed by a disaster
- Option to calculate the VATR as the lower of:
  - The VATR calculated as a special taxing unit
    - 8% revenue multiplier and no unused increment
  - The city's actual VATR plus the disaster relief rate
    - The rate needed to raise enough revenue to remedy the disaster (debris removal, etc.)
- If the rate exceeds that VATR, an election is required

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Tax Rate Adoption Timeline- Step 1

- **July 25th – Chief Appraiser certifies the appraisal roll or provides a certified estimate to assessor-collector.** (§ 26.01).
  - Designated officer or employee uses roll or estimate to calculate no-new-revenue rate and voter-approval rate.

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Tax Rate Adoption Timeline-Step 2

2. August 7th – Designated officer or employee must submit tax rates to city council. (§ 26.04(b)).

– City must post tax rates and calculations, M&O and I&S balances, and detailed debt obligation schedule to city website

– As soon as practicable after the designated officer or employee calculates the city's tax rates, the designated officer or employee shall submit the tax rate calculation forms to the county assessor-collector for the county or counties

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Tax Rate Adoption Timeline- Step 3

Notice of Meeting to Adopt Tax Rate

- Contents of notice differ depending on the rates (§ 26.06; 26.061)
- Simplified notice for "low tax levy" city (§ 26.052).
  - Mailed or published in newspaper
- Notice can be mailed or published/posted online
  - But not the legal notices and classifieds
    - Low tax levy city taking advantage of simplified notice can publish in legal/classifieds

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Tax Rate Adoption Timeline- Step 3.5

Tax Rate Hearing, if required. If city adopts tax rate exceeding no-new-revenue rate, must hold a hearing (§ 26.05(d))

- Hearing must be held at least five days after the notice of tax rate is given; weekday that is not a public holiday. (§ 26.06(a))
- Notice must be posted continuously for 7 days on the internet and on television (for cities with free access to cable broadcast)
- Only one hearing is required
- Tax rate can be adopted at conclusion of hearing (but not on the same day as the budget hearing)
- Exception (electronic failure, circumstances beyond city's control

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Tax Rate Adoption Timeline- Step 4

Adopting the Tax Rate (§ 26.05, Tax Code)

- By ordinance (special language)
- If rate exceeds no-new-revenue rate, special language required in the motion to adopt and 60 percent vote
- If tax rate raises more total revenue, special language required on the ordinance and on the internet
- M&O and I&S approved separately
  - If the I&S portion exceeds what is needed for the minimum dollar amount required for debt service, the city must approve a motion describing the purpose by a 60 percent vote

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Date of Tax Rate Adoption

- Any rate that exceeds the voter approval rate must be adopted 71 days before the uniform election date.
  - In 2026, August 24
- A rate that exceeds the voter approval rate and requires an election must be adopted 78 days before the uniform election date.
  - In 2026, August 17
- A rate that does not exceed the voter approval rate must be adopted before September 30
  - September 29

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Order of operations

- One day must pass between numbers 1 and 4.
- Other than that, things can be combined
- Minimum 2-day process

1. Budget Hearing
2. Tax Rate Hearing
3. Adoption of Budget
4. Adoption of Tax Rate

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Failure to Comply with State Law

- Missed tax rate adoption deadline:
  - the tax rate is the lower of the no-new revenue rate or last year's rate.
- Injunction by property owner of collection of taxes if city does not comply with Chapter 26, Tax Code
  - With the exception of the hearing requirement
- Bad press/angry citizens
  - This one is possible even if the city does comply with state law

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