

# Tax Calculation Process Audit

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## City of Pearland, TX

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# Brief Overview and Recommendations

## Overview

SGR, in partnership with an independent consultant, was engaged to complete an audit of the City's Tax Calculation Processes and make best practice recommendations. This audit involved meeting with staff from the City of Pearland Finance Department, interviewing staff with the Brazoria County Tax Assessor and the Harris County Appraisal District, as well as reviewing emails, documents, and processes.

This report provides an assessment of findings and includes recommendations for Council and staff to consider.

## Summary of Recommendations

This report recommends the following actions to address current challenges:

1. Improve communication between Brazoria County Tax Assessor and the City of Pearland.
2. Train City of Pearland finance staff in completing the worksheet calculations and verify when receiving both the preliminary and certified numbers from the Brazoria County Tax Assessor. It is recommended that training be provided by the Texas Comptroller's Office, Texas Municipal League, and Government Finance Officers Association of Texas.
3. Conduct an Organizational Study of the Finance Department to address internal dynamics and improve morale.
4. Seek legislative changes to address process issues stemming from changes that Senate Bill 2 from the 2019 Texas Legislative Session enacted.

Additional details on these recommendations are provided in the following sections.

## Background and Timeline of Events

### Overview

The City of Pearland, Texas (City) is located within Brazoria County with portions extending into Fort Bend and Harris Counties. This unique circumstance of city limits spanning three counties creates challenges related to the coordination of appraising values and calculating tax rates.

Currently, and for the past 22 years, the City contracts with the Brazoria County Tax Assessor to compile values from Brazoria County Appraisal District (BCAD), Harris County Appraisal District (HCAD), and Fort Bend County Appraisal District (FBCAD) to produce the No New Revenue Tax Rate (NNRTR) and the Voter Approved Tax Rate (VATR) in compliance with the Senate Bill (SB) 2 requirements enacted after the 2019 Texas Legislative Session.

The City's annual budget process begins in March/April each calendar year. During the Fiscal Year 2023 (FY23) budget process, calculations were made which caused the City of Pearland Finance staff to question the dramatic drop in the NNRTR calculation. However, the City was assured by the Brazoria County Tax Assessor that the calculations were correct. It should be noted that the Brazoria County Tax Assessor individual(s) who confirmed the calculations were correct were unable to be identified.

Shortly after the budget was adopted in September 2022 and the new fiscal year started in October 2022, the City was working on a new Tax Increment Reinvestment Zone (TIRZ) and asked Brazoria County Tax Assessor to confirm values. Upon receipt of the values, City of Pearland Finance staff noticed the numbers had changed considerably from the Brazoria County Tax Assessor's Certified Estimate provided in July 2022. The Brazoria County Tax Assessor explained that the new report reflected the certified values provided by HCAD in August 2022. At this point, it became clear that the Certified Estimate values provided in July were different than the Final Certified Roll values provided in the November 2022 report.

As part of the requested audit of the City's tax calculation processes, SGR conducted interviews with the City of Pearland Finance staff, BCAD and HCAD staff, as well as a review of email exchanges. The following is a chronological account of events related to the tax calculation process that took place from April 2022 to November 2022, in conjunction with the annual budget process. The information includes important dates, emails, and interview questions and answers. The information identifies where the breakdown in process occurred and areas to implement best practices going forward.

### Timeline of Events with Interview and Email Notes

**April 28, 2022:** HCAD hosted its annual Tax Assessor Collector Meeting to discuss changes to the tax calculations, provide preliminary appraisals, etc. No one from the Brazoria County Tax Assessor attended this meeting. At this meeting, HCAD discussed making changes to the format of the Certified Roll.

- **Question to Brazoria County Tax Assessor:** To your knowledge, did HCAD offer training/workshops before the estimates were released? If so, did anyone participate in these?

- **Answer from Brazoria County Tax Assessor:** HCAD hosts an annual Tax Assessor Collector Meeting. I (Brazoria County Tax Assessor) was unable to attend on April 28, 2022, and I did let HCAD know that I was not going to be able to attend.

**May 5, 2022:** HCAD sent an email to all the Tax Assessor Collectors stating they had "discussed the possibility of generating reports for the July estimate to somewhat mimic the reports provided at certification." HCAD also stated they wanted feedback before moving forward. The email stated that the "Where to Find" document, which provides instruction on how to use HCAD's reports in the tax rate calculation, would still be provided by HCAD with the July estimate.

- **Question to HCAD:** When you sent the email out on the new report format and solicited feedback, did you get any response from the Brazoria County Tax Assessor?
- **Answer from HCAD:** No, sir, we did not receive any response from the Brazoria County Tax Assessor.

**July 26, 2022:** Brazoria County Tax Assessor delivered the Certified Tax Roll to the City of Pearland from Brazoria County and Fort Bend County, and the Certified Estimate from Harris County. Upon review of the Certified Roll, staff began to question the sharp decline in the No New Revenue Tax calculation compared to the FY22 adopted tax rate. The decline amounted to an almost 7 cent drop in the tax rate. Staff asked the Brazoria County Tax Assessor three times if the numbers were correct and were assured that, because of the increase in values, the numbers appeared to be correct. In addition, staff was told that multiple jurisdictions were seeing similar declines in the No New Revenue Tax Rate.

**August 8, 2022:** Pearland City Council passes a resolution setting the maximum tax rate for FY23 at 0.628765.

**August 17, 2022:** Required advertisement on maximum tax rate published in newspaper of record.

**August 19, 2022:** HCAD certified the roll.

**August 31, 2022:** The Certified Tax Roll from HCAD was uploaded to their portal and a notification was sent to the Brazoria County Tax Assessor via email.

The Certified Tax Roll was downloaded by the Brazoria County Tax Assessor. No updates were provided to the City of Pearland. When the Certified Tax Roll values were input into the required tax calculation worksheet, the resulting tax rate with the unused increment would have been 0.732857.

- **Question to Brazoria County Tax Assessor:** Did you receive any email notice of the Certified Tax Roll prior to August 31, 2022?
- **Answer from Brazoria County Tax Assessor:** No sir. Sorry for delayed response. I wanted to double check with my Assessing Supervisor.

- **Email sent by HCAD to all TAC's dated August 31, 2022:**

Greetings All,

The 2022 Certified Appraisal Roll files are now available on HCAD's FTP server and the Jurisdiction Online Services' webpage (<http://jurs.hcad.org>).

The pdf and text files will be delivered through the ftp site and the Jurisdiction Online Services' webpage.

Information you'll need to use this service is available online.

To get help or if you have any questions, please email: [ftpsupport@hcad.org](mailto:ftpsupport@hcad.org)

**September 13, 2022:** City of Pearland first reading on proposed tax rate of 0.628765.

**September 27, 2022:** City of Pearland second and final reading on proposed tax rate.

**October 1, 2022:** First day of the new Fiscal year.

**Late October 2022:** City of Pearland finance staff requested an updated tax calculation sheet as they were working on the new TIRZ.

**November 1, 2022:** City of Pearland Finance staff received the updated tax calculation sheet using the Certified Tax Roll made available by HCAD on August 31<sup>st</sup>. When compared to the original worksheet, the tax rate with unused increment rate should have been .732857 instead of the .633611 rate used to adopt a .628765 tax rate. Staff immediately began asking questions and communicated with Brazoria County Tax Assessor over the course of the next few days to get clarification on the numbers.

**November 2, 2022:** City of Pearland finance staff notified Council of their findings and a discussion item was placed on the November 7<sup>th</sup> agenda.

**November 7, 2022:** City Council's agenda included discussion on how staff received updated numbers and the communications that followed. Subsequent meetings took place over the next two months.

**Other Relevant Facts and Email Communications:**

- When comparing the FY22 (2021 Tax Roll) assessed value increases to the FY23 (2022 Tax Roll) increases for all three counties' Certified Rolls, overall increases were in the double digits. FY22 increases ranged from two percent (2%) in Fort Bend County to nine percent (9%) in Harris County. FY23 ranged from eleven percent (11%) in Fort Bend County to seventeen percent (17%) in Harris County. (Source: State Comptroller)
- In reviewing the two years' worksheets, it became apparent that Line 18a had no HCAD value for FY22 while FY23 reflected \$1.6 billion. In addition, Line 19b also reflected an uncertified value of \$1.3 billion for Harris County. **This should have prompted further investigation.**

- City of Pearland Finance staff asked questions of Brazoria County Tax Assessor and were assured that other taxing jurisdictions were experiencing similar valuation increases. Staff were told by the Brazoria County Tax Assessor that the numbers had been triple-checked.
- When the Brazoria County Tax Assessor was notified by HCAD on August 31<sup>st</sup> that the certified roll had been loaded to the portal, there should have been enough time to notify the City of Pearland of the noticeable change in the No New Revenue Tax Rate and Increment Rate.
- Had the City of Pearland known of the Certified Roll that was available on August 31, the City would have been able to take steps to revise the notice to reflect actual Certified Tax Rolls. The City Attorney would need to give an opinion as to whether a revised Certified Tax Roll could be used. It is our understanding that the attorney has expressed an opinion in the affirmative that adjustments could have been made.
- According to the Brazoria County Tax Assessor, no comparison was made between the HCAD Certified Estimate from July 2022 and the Certified Tax Roll that was uploaded on August 31, 2022. Further, during this audit, the Brazoria County Tax Assessor stated that it was not their responsibility to compare Certified Estimates to Final Certified Rolls.
  - **Question to Brazoria County Tax Assessor:** When did you receive a copy of the HCAD Certified Roll? Once received, did you double check certified against estimated?
  - **Brazoria County Tax Assessor Answer:** The HCAD Certified Roll was sent to the Brazoria County Tax Assessor on August 31, 2022. It is my understanding HCAD did not send the Certified Roll letter to the City of Pearland as they had the Certified Estimate Letter to both the Tax Assessor Collector and the City of Pearland. The City has since requested that HCAD be sure the City receives the Certified Roll Letter.

It is not the responsibility of the Tax Assessor Collector to compare certified estimates to certified values.

It is the responsibility of the Tax Assessor Collector to load certified values and adopted tax rates into the tax collection software. Once certified values and adopted tax rates are loaded into the tax collection software, certified values and calculated levy are sent to the taxing entity for approval by the governing body in accordance with Tax Code 26.09(e). The City of Pearland was emailed their Certified Tax Roll and calculated levy by the Brazoria County Tax Assessor on October 5, 2022.

## Best Practice Recommendations

The following is a list of best practice recommendations for consideration which will help improve communication and prepare staff to address questions that arise regarding the SB2 Tax Rate Calculation Worksheets and tax rate calculations.

- Contract with a company to perform calculations moving forward which will help ensure accuracy in how the numbers are calculated. The City of Pearland has already initiated this contract.
- Train a minimum of two City of Pearland finance staff members in the requirements and calculations set forth in SB 2 from the 2019 Texas Legislative Session.
  - This will ensure that staff have a chance to calculate the No New Revenue Tax Rate and the Voter Approved Tax Rate in conjunction with the external contractor and the Brazoria County Tax Assessor. This internal training will also allow for knowledge transfer in the event of staff turnover.
  - The recommended staff positions for this training include, but are not limited to, the Budget Officer and a senior finance staff member.
  - The Texas State Comptroller or State Associations will provide annual training.
    - NOTE: This may cause a slight increase in the training budget, however, the investment will provide value in the long term.
- Finance staff should attend all County Appraisal Districts' meetings in the April timeframe to better understand any changes in processes.
  - NOTE: The additional training and attendance in the meetings may cause the need for increased staffing for coverage.
- Finance staff should receive and read the County Appraisal Districts' monthly updates. There is a commitment from Harris County Appraisal District to send the City of Pearland these updates, as indicated in their interview.
- The Final Certified Roll was never delivered to the City of Pearland from Brazoria County Tax Assessor. Best practices would be that the City receive all preliminary rolls, updates, and the Final Certified Roll to monitor changes throughout the budget process. Again, Harris County Appraisal District has committed to sending the Certified Estimate and the Certified Final Roll to the City. **It is recommended that all three County Appraisal Districts send these for review.**
- Communicate with the Brazoria County Tax Assessor and the County Appraisal Districts. Press the issue if the numbers do not appear to be correct. This will, at minimum, highlight any issues found.
- Compare the current year to previous year's calculations. When numbers do not appear to be correct, ask questions to the Brazoria County Tax Assessor and the County Appraisal Districts. Comparison will help identify questions early.
- Compare Brazoria County Tax Assessor information from July to the Final Certified Roll that comes out in August. Given that HCAD generally provides a Certified Estimate in July, comparing the Final Certified Roll to the one provided in July will help raise questions.



- Establish a dedicated contact other than the elected Tax Assessor Collectors at all three County Appraisal Districts. Having a staff contact at the Brazoria County Tax Assessor and County Appraisal Districts will help ensure consistent information flow.

**Other Considerations for Council and Staff:**

In interviews conducted with the City of Pearland Finance staff, it was revealed that the workload of the staff surpasses their available resources and capacity, and their work is not being adequately acknowledged. Additionally, several staff members expressed that they perceive a lack of trust of the Finance Department. The events leading up to November of 2022 may have been the tipping point to bring these issues to light.

It is recommended that an Organizational Study of the Finance Department be considered as it would help identify some of the trust and workload issues, and potential staffing areas that could be used to address these concerns. This study would include interviews with Senior Staff, Department Directors, Finance staff and others as identified. A summary of areas to be addressed and other recommendations for staffing and/or workload adjustments would be provided.

## Summary

### Overview

While the miscommunication and calculation changes resulted in significant disruptions for the City of Pearland, there appears to be no intentional deception that took place in July 2022. However, it does appear that there could have been better attention paid on the part of the Brazoria County Tax Assessor to the Certified Estimate and the Final Certified Roll produced by HCAD in running the calculations. While it should be acknowledged that the months leading up to budget adoption can be very busy for the County Appraisal Districts, Tax Assessors, and the City of Pearland, there should be the ability to recognize anomalies that take place from one year to the next, or from the Certified Estimate to the Final Certified Roll. It does not appear that enough attention was given to the Certified Estimate and the Final Certified Roll. Some of the best practices identified will help to identify these anomalies in a timelier manner.

Regarding the Brazoria County Tax Assessor, better communication should have been provided to the City of Pearland on the Certified Estimate and Final Certified Roll. Best practices of having the City included in communication from the County Appraisal Districts will help improve overall communication. The City has relied on information from the Brazoria County Tax Assessor for many years, even before SB 2. A contracting agency such as the Brazoria County Tax Assessor should also consider significant changes, such as what occurred with the HCAD Certified Estimate and Final Certified Roll and communicate the changes to the City of Pearland as soon as possible.

As mentioned in the best practices, the City should dedicate resources to training in the worksheet calculations and to asking questions when the preliminary numbers and certified numbers are released. This will ensure overall better communication as the budget process moves forward.

Finally, it is recommended that an Organizational Study be conducted for the City of Pearland Finance Department to address some of the workload concerns and feelings of underappreciation. Implementing these recommendations could greatly improve morale and help the overall working environment within the department.

### Legislative Changes

This situation highlights an opportunity to seek legislative changes to address several process issues that resulted from the 2019 Texas Legislature passing SB 2. Utilizing the Final Certified Roll instead of the Certified Estimate could have prevented the situation which occurred for FY23.

SB 2 changes would allow for clarification of the use of the Certified Roll when an estimate is initially provided, or when noticeable changes occur between the Certified Estimate and Final Certified Roll. For the City of Pearland, the FY23 calculations will have a lasting impact on future budgets. The Final Certified Roll calculations should be the starting document for future year calculations. Where significant changes between the Certified Estimate and the Final Certified Roll occurred for the City of Pearland, the resulting impact was significant.