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# Tax Calculation Process Audit

City of Pearland, Texas

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# Timeline of Events

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# Timeline of Events



**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.



**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.



**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.



**August 8, 2022**

Pearland City Council passes a resolution setting the maximum tax rate for FY23 at 0.628765.

# Timeline of Events



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.

**NOTE:** 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 no new revenue tax rate with the unused increment would have been 0.732857.



September 13, 2022

City of Pearland first reading on proposed tax rate of 0.628765.

# Timeline of Events



**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 31st. When compared to the original worksheet, the no new revenue 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.

# Timeline of Events



**November 2, 2022**

City of Pearland finance staff notified Council of their findings and a discussion item was placed on the November 7th 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.

# Relevant Facts & Email Communications

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# Relevant Facts & Email Communications

- 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 31st 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 has expressed an opinion there would have been enough time to make adjustments to the tax rate.
- 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.

# Best Practice Recommendations

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# 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 internal training will also allow for knowledge transfer in the event of staff turnover.
- Finance staff should **attend all County Appraisal Districts' meetings** in the April timeframe to better understand any changes in processes.
- 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.**

# 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.

- **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 and allow staff to elevate concerns.
- **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

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# 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.

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