

**Invited Testimony of David Patterson, RTA
President of Assessments of the Southwest, Inc.
Before the Texas House Ways & Means Committee
On February 5, 2020**

I want to thank Chairman Burrows and the members of the committee for the opportunity to provide testimony today on Interim Charge 5, directing the Committee to:

Review the use of third-party tax collection firms, including law firms and tax specialty firms, by governmental units. Evaluate what methods other states use to collect taxes. Determine whether the use of those firms is cost-effective for the taxing jurisdiction or if the tax collection efforts should be performed by the taxing units directly.

For the record, my name is David Patterson and I am the President of Assessments of the Southwest, Inc. My company provides tax assessor collector services and other services on a contract basis for numerous special districts in Texas. We work with district developers and special district boards to assess and collect property taxes for approximately 175 districts in Texas – serving over 220,000 accounts in 8 different Central Appraisal Districts (CAD's) within the State. I have been a registered Property Tax Professional (Registered Texas Assessor Collector) since 2012, am a member of Texas Association of Assessing Officers (TAAO), and currently serve on the Policy Advisory Council for the Association of Water Board Directors (AWBD). I hold an Associate Degree in Surveying and a B.S. in Industrial Engineering from the University of Texas at Tyler.

Historic Overview of the Use of Special Districts to Provide Public Infrastructure in Texas

Water has played an important historical role in the development of Texas – and providing access to water infrastructure continues to be an essential and challenging part of addressing the demand for residential housing in Texas, particularly in high growth areas of our state.

Texas recognized the need to provide access to water early on in the state's history, when it adopted Article 3, Section 52 of the Texas Constitution in 1904, seeking to address rural agricultural needs by authorizing the Legislature to pass laws creating special water districts. In 1911, the Legislature authorized in statute the creation of Navigation Districts and Drainage Districts, and in 1913 and 1915 respectively, it authorized the creation of Irrigation Districts and Levee Improvement Districts. In 1917, the Texas Constitution was again amended to add Article 16, Section 59, which greatly improved the ability of special districts to issue bonds.

Many changes to state law have been made since the early days of special districts, and their use has continued to be adapted for new purposes – including using special districts to finance utility infrastructure to support new suburban growth and development. Harris County Improvement District No. 1 was created in 1955, becoming the first special district to be used as a financing mechanism for development purposes in Texas.

Over the years, the Legislature has granted additional authority to special districts, in some cases allowing them to issue road bonds, dispose of solid waste, address fire-fighting needs, fund parks and recreation

facilities with surplus revenue, provide street lighting, enforce deed restrictions, contract with law enforcement, perform street repairs, and enter into strategic partnerships.

While the greater Houston area was first to aggressively embrace the use of water districts, this method of funding public infrastructure is now utilized in other parts of the state, including the Austin, San Antonio, and Dallas/Fort Worth areas. The use of special districts in Texas continues to serve as a way to deploy and oversee essential services such as water and waste water treatment. Texas law specifies the types of professional services needed by special districts, and the terms by which districts procure professional services.

Registered Texas Assessor Collectors (RTAs) Serve as Tax Office for Special Districts

Assessments of the Southwest, Inc. is one of a number of companies operating as “Registered Texas Assessor Collectors” (RTAs) in the greater Houston area that collect property taxes for various types of special districts and provide a wide range of professional consulting services essential to the operation and financial management of a district.

Registered Texas Assessors Collectors (RTAs) are specialized property tax professionals who are certificated by the state and authorized to enter into contracts with special purpose districts and other governmental entities to perform tax assessment and collection duties required of all taxing jurisdictions under state law. RTAs are specialized consultants to special districts, and function as the chief administrative officer of the tax office of a taxing unit.

RTAs are governed by Texas Occupations Code, Chapter 1151.151, which requires various types of property tax professionals (appraisers and non-elected tax assessors and collectors) to register with the Texas Department of Licensing and Regulation (TDLR) and to complete work experience, education and testing requirements in order to become certificated. RTAs must also complete annual continuing education to maintain the RTA registration certificate.

When operating under contract with a special district, RTAs adhere to other important state laws such as the Public Information Act (Chapter 552, Texas Government Code), the Local Government Records Act (Chapters 201-205), Texas Local Government Code, as well as relevant portions of the Property Tax Code and the Water Code.

The Board of Directors may contract with any qualified tax assessor collector to administer and collect property taxes for their district. Because of the many specialized requirements associated with tax assessment and collection for special districts, the service models offered by RTAs have proven to be very cost effective for special districts – particularly considering the range of specialized information consulting services provided in addition to performing tax assessing and collecting functions for the District.

RTAs provide essential services to special districts throughout the different phases of a development project, working as a partner with districts by providing official records and financial information to developers and investors, elected District directors, appraisal districts, individual taxpayers, and other professional consultants contracting with the District – such as engineers, lawyers, auditors, bookkeepers, operators and financial advisors.

Regardless of who a District contracts with to serve as the tax assessor collector, the taxing unit governing bodies (e.g. county commissioners courts, city councils, school boards, and boards of directors) remain responsible for approving the taxing unit’s budget, adopting tax rates, overseeing the levying and collecting of taxes, and spending those taxes to provide services and pay the district’s bond debt and its ongoing maintenance and operations costs – and all taxpayer protections remain in effect.

Registered Texas Assessor Collectors Are Not Delinquent Tax Attorneys

RTAs are not authorized to serve as delinquent attorneys but do assist with delinquent tax collections in a manner similar to other taxing jurisdictions. However, due to the relatively small tax base that generally exists to support a special district, the impact of even minimal levels of delinquent tax accounts can be material to the financial health of the District and negatively affect other taxpayers. For these reasons, RTAs pay special attention to individualized collection efforts where needed, including reaching out to taxpayers to discuss setting up payment plans to avoid delinquent status. Because RTAs engage in active efforts to prevent taxpayers from becoming delinquent, they generally have very high tax collection rates and very low delinquent rates. This type of personalized, targeted approach to collections helps taxpayers and Districts.

Registered Texas Assessor Collectors (RTAs) Provide Many Types of Consulting Services to Districts

Contracts between an RTA and a special district authorize the RTA to perform all normal duties required of tax assessor and collectors, and effectively designate the RTA to run the tax office of the District and to serve as the chief administrative officer of the taxing unit.

In addition to assessing and collecting property taxes, RTAs provide following types of services to special districts and their contract consultants:

Representation at Monthly Meetings – RTAs attend monthly meetings to present detailed collections tax report and respond directly to directors, developer and addresses residents' concerns and questions. We are available to assist our boards and the team of consultants employed to support the development, maintenance and operation of special districts.

Assistance with Special Projects – RTAs provide data and reports for special projects, value projections and any tax roll information requests by developers, attorneys, financial advisor and other consultants. We are often called upon by developers and financial advisors to intervene on their behalf in dealing with the appraisal district, especially when values are inaccurate. We also provide sales data and proposed values to the appraisal district, at the request of developers, to represent accurate value for projected bond sales.

Bond Sales, Refunding Bond Sales, and Continuing Disclosures – RTAs provide extensive and continually updated information and support for bond sales projections and documents. RTAs order Certificates of Value and Estimates of Value from the appraisal district for bond sales, upon request from legal counsel and/or the district's financial advisor. This is a high priority item and requires immediate attention to ensure timely receipt from the appraisal district. RTAs monitor these requests to ensure that the most accurate information is available and provided timely for upcoming bond sales.

Tax Roll Review – RTAs monitor and research tax rolls to ensure accuracy of appraisal district records including recent annexations and recent residential and commercial construction and business startups.

Adopting Optional Tax Exemptions – Before the District adopts their annual tax exemptions, RTAs provide information to legal counsel and to the financial advisor to avoid increasing a tax rate only to offer an exemption. It is important to consider the effect of offering exemptions if it's at the expense of raising the tax rate.

Appraisal District Corrections – RTAs assist developers and financial advisors with appraisal district corrections and, in the process of correcting values, work to educate property owners about deadlines they must meet, the required documentation to file with the appraisal district; we educate business owners and review the process of filing timely annual rendition forms to avoid a 10% rendition penalty. RTAs mail reminders to business personal property owners with delinquencies on the process of filing for

official deletion if their business has closed to avoid receiving future tax bills from tax offices. As needed, RTAs intervene on behalf of property owners who need assistance with appraisal district corrections.

Establish Potential Value Loss due to Litigation Refunds – RTAs provide monthly monitoring of litigated accounts filed by taxpayers with the appraisal district; we ensure proper funds management related to possible refunds due to significant reductions in value. RTAs notify legal counsel and financial advisors of the potential value loss as this may affect future bond sales. This is a very time intensive process and requires significant knowledge and expertise, as the RTA is not given the proposed value the property owner is seeking. However, funds must be set aside in the tax administration budget to allow for potential refunds.

Over 65 and Disabled Homeowners – Upon making their required $\frac{1}{4}$ payment by January 31 (or the extended deadline: Feb 28), RTAs mail “Coupons” to property owners for their use to mail future payments to be made by March 31, May 31, and July 31, with no penalties and interest. The coupons are not required by the Tax Code; these are provided as a courtesy to our Over 65 and Disabled Homeowners. In addition, RTAs provide Special Monitoring and Reminder mailings to accounts with these installment options.

Tax Deferrals for Over 65 and Disabled Homeowners – RTAs monitor accounts with these Deferrals and mails to the property owners a letter explaining their deferral is a “Postponement” to pay the taxes which are due; this outlines the interest rate that is accruing, and their need to make sure their family knows this liability exists and the deadline for which their Estate needs to pay to avoid penalties and interest.

Courtesy Reminders on Mortgage Coded Accounts – Before the penalties and interest attach on February 1, RTAs takes the time to review which accounts were not paid by a mortgage company who requested a tax bill; we mail a reminder bill to property owners asking for their assistance to have their mortgage company remit payment and/or pay the tax themselves by Jan 31 to avoid the penalties and interest.

District Tax Account Balances Secured with Pledged Securities – RTAs manage the District bank account and conduct monthly balancing, issuance of checks, and handling tax deposits. RTAs reconcile the District bank account on a monthly basis and monitor the balances to ensure pledged securities are in place to protect the District’s funds. Pledged security note(s) are provided to the District’s auditor for documentation. RTAs provide notice to property owners who have not cashed a refund check, sending a reminder that a refund was mailed and to deposit timely or request reissuance. Stop payments are processed on original checks. RTAs make every effort to ensure property owners receive their refunds.

Wire Transfers to the General Operating Fund and Debt Service Fund(s) – Based on the adopted tax rates, RTAs make monthly wire transfers, with the appropriate allocations to each fund: General Operating and the various Debt Service Funds: Water Sewer Drainage, Road Bonds, Contract Tax. RTAs coordinate with the District’s bookkeeper to authorize the acceptance of funds to be wired by the RTA from the District’s tax account to the accounts maintained by the bookkeeper for investment purposes and to ensure timely bond payments are made and to make deposits into the general operating fund for District’s maintenance and operations expenditures.

Fiscal Year Ends and Auditor Requests – RTAs work directly with the District’s auditor and provides any and all document they request. RTAs are available for the official “Walk Through” and answers any questionnaires provided.

Appraisal Board Elections – Every two years, RTAs monitor the appraisal board election process to ensure Representation of Special Districts is included on the ballot. RTAs work with legal counsel and legal assistants to meet proposed deadlines in this process. Representation of Special Districts at the appraisal district is important to have a contact person to bring attention to the special needs of water districts.

Appraisal District Liaison – RTAs work with appraisal districts and review problem cases to resolve outstanding issues relating to certification of the official tax roll for the district.

Disaster Relief – RTAs work directly with property owners who are affected by a disaster and guide them through the process of applying with the appraisal district for value reconsideration and educate them on the required documentation if they wish to apply for Disaster Relief, which allows four installment payments to be made by: Jan 31, Mar 31, May 31, and Jul 31, with no penalties and interest, if made timely. Courtesy coupons are provided for this process. RTAs monitor the projected value loss and refunds to taxpayers, at no extra cost to Districts. RTAs keeps legal counsel and the District's financial advisor aware of potential value loss due to disasters.

Agent for Notice (Notice to Purchaser) – RTAs serve as the Agent of Record for Districts. Legal counsel provides the official Notice to the RTA after a tax rate is adopted and/or bonds are sold. Whenever property sales transactions occur, the RTA works with title companies, realtors, and property owners to provide them with the required documentation to be signed by the potential Buyer officially notifying the potential property owner taxes are due to the District on an annual basis. This document also outlines the District's tax rate and the District's authorized bonds.

Return Mail by the Post Office – In addition to mailing the required tax bills to property owners, RTAs assist with the research necessary to locate taxpayers when the post office returns mail as undeliverable. This is a very time intensive project, but we make every effort to locate property owners to notify them taxes are due.

Delinquent Tax Attorney for the District – RTAs work directly with the District's Delinquent Tax Attorney and makes them aware of special cases. RTAs update business personal property records that are deemed Uncollectible as recommended by the Delinquent Tax Attorney.

Tax Rate Recommendations – Before a financial advisor makes a tax rate recommendation, they must first receive documentation from the RTA. This includes providing certified values from the appraisal district, current and past year homestead averages, and other calculations related to the voter approved tax rate and the no new revenue tax rate established by the Legislature in SB 2.

Legal Notice Publications – After establishing a proposed tax rate, RTAs are authorized by the Board of the Directors to publish the required quarter page ad in an approved newspaper, generally the most cost effective. RTAs provide a list of newspapers and the costs for such to the Board for review. RTAs use whichever newspaper the Board selects and monitor these publications to ensure the requirement is met before the tax rate adoption process takes place.

Tax Certificates and Rollback Tax Calculations – When the District's engineer is platting a new subdivision, upon request, the RTA prepares tax certificates for the platting process. Rollback tax calculations are prepared when agricultural rollbacks are triggered, changing use of land, as subdivisions are being developed. RTAs are diligent in processing these requests for fellow consultants contracting with the district.

Highest Level of Customer Service – RTAs hold the required certification with the State of Texas (Registered

Texas Assessor Collector) and obtain the required annual continuing education to maintain that certification. RTAs cross-train their employees to ensure they are knowledgeable about the tax collection process and qualified to answer any questions or address any problems the taxpayer may have. Without knowledgeable staff handling taxpayers' calls, they may roll over to legal counsel, resulting in greater costs to Districts.

Overview of New Senate Bill 2 Requirements for Special Districts

Senate Bill 2, which passed in the 86th Legislative Session and became effective January 1, 2020, added Tax Code Sections 26.17-26.18. These new sections contain specific requirements for taxing units and appraisal districts to provide information that is to be maintained on a publicly accessible database by the county appraisal districts (Sect. 26.17) and on a publicly accessible website by individual taxing units (Sect. 26.18).

While Section 26.17 applies to appraisal districts, it specifically states that certain information required to be made available by the appraisal district must also be provided and updated by the taxing units themselves. One of the required items is an e-mail address from which the taxing unit is capable of receiving written comments from the public regarding District proposed tax rates.

RTAs provide the following Section 26.17 Information to the Appraisal District Database:

- No new revenue and voter approval tax rates
- Proposed tax rate
- Date, time and location of meeting to propose tax rate
- Date, time and location of meeting to adopt tax rate
- Email address per taxing unit to receive written comments regarding the proposed rate.
- Website link to 26.18 data (this would be the assessor's website if district is using it to comply with Section 26.18 requirements)
- Tax rate calculation forms prepared under Section 26.04

Sect. 26.18 requires each taxing unit to maintain or have access to a generally accessible website for posting certain required information. The county database must also provide a link to the taxing unit's website being maintained pursuant to Sect. 26.18 and the database must allow property owners to electronically complete and submit to a taxing unit a form that gives the property owner the opportunity to provide an opinion about the unit's proposed tax rate.

RTAs assist Districts with Section 26.18 in providing required information for website postings:

- Name of board members
- Mailing address, email address, telephone number for the District
- Current budget and two prior years
- Preceding year vs current budget change in dollar and percentage
- Budgeted maintenance tax revenue for current and two preceding years
- Budgeted debt service revenue for current and two preceding years
- Proposed maintenance and debt rates for current year
- Adopted maintenance rate current and two preceding years
- Adopted debt rate current and two preceding years
- Tax Assessor Collector Report
- Most recent audit

RTAs have been working with District taxing units they represent to ensure compliance with other new SB 2 requirements, in addition to providing the website, information, and email contact service to ensure Districts to comply with these new requirements for taxing units.

For example, SB 2 required that Districts be determined to be a Developed, Developing, or Special Low Rate District – and applied different thresholds for rollback rates, which will need to be determined depending under which category a district falls:

- Special Taxing Units – 8% maximum tax rate increase (automatic rollback election)
- Developed District – 3.5% maximum tax rate increase (automatic rollback election)
- Developing District – 8% maximum tax rate increase (rollback election by petition)

A small group of Greater Houston area tax assessor collectors have been working to put together a tax worksheet for special districts to implement these three new categories of tax rates established for districts. Designed to assist Districts with SB 2 compliance, RTAs have submitted the worksheet to the Comptroller for review. Additional worksheets will need to be completed by the assessor to determine the Voter Approved Tax Rate and the No New Revenue Tax Rate. RTAs will continue to be actively involved in ensuring compliance with provisions of SB 2.