

The Basics of SB 13/HB 2104: Legislation Requiring a Hearing to Exceed the Revenue Neutral Rate

What are SB 13 and HB 2104?

During the 2021 legislative session, the tax lid was removed and the legislature enacted SB 13 and HB 2104. This legislation establishes new notice and public hearing requirements if the proposed budget will exceed the property tax levy's revenue neutral rate. These requirements take effect this year (2021), for a city's 2022 budget.

What is a Revenue Neutral Rate (RNR)?

The tax rate in mills that would generate the same property tax revenue in dollars as levied the previous tax year using the current tax year's total assessed valuation.

How is the Revenue Neutral Rate Calculated?

To calculate the revenue neutral rate, the County Clerk shall divide the property tax revenue for such taxing subdivision levied for the previous tax year by the total of all taxable assessed valuation in such taxing subdivision for the current tax year, and then multiply the quotient by 1,000 to express the rate in mills. (SB 13 Sec. 1(e)(2))

What is a Tax Rate Hearing?

A Tax Rate Hearing is a hearing to exceed the Revenue Neutral Rate (RNR).

$$\text{RNR} = \frac{\text{Last year's total property tax raised in dollars}}{\text{This year's assessed valuation as of June 15}} \times 1,000$$

Year-to-Year RNR Sample Calculation

2021 Budget	2022 Budget
• City Levied \$900,000 in property tax	• In 2021 budget, City levied \$900,000
• Assessed Valuation of property = \$29,000,000	• Assessed Valuation changes to \$31,000,000
• Value of one mill = \$29,000	• Value of one Mill = \$31,000
• Mill Rate = $\left(\frac{\$900,000}{\$29,000,000} \right) \times 1,000$	• Revenue Neutral Rate = $\left(\frac{\$900,000}{\$31,000,000} \right) \times 1,000$
31.034 mills	29.032 Mills

What is the Process to Exceed the RNR (setting a mill levy higher than the RNR)?

1. Notify the County Clerk by July 20 with intent to exceed the revenue neutral rate.
2. Place a notice on the city website and in a newspaper of general circulation in the county 10 days prior to the hearing.
3. No earlier than August 20 and no later than September 20, conduct a tax rate and budget hearing giving taxpayers an opportunity to comment on the budget.
4. Adopt a resolution or ordinance to exceed the revenue neutral rate.
5. Adopt the proposed budget.
6. By October 1, certify to the County Clerk the amount of ad valorem tax to be levied by the City.



1. The tax lid was about actual dollars. The revenue neutral rate is about the MILL LEVY not total dollars!
2. If the City does not hold a hearing to exceed the revenue neutral rate, the City will need to work with the County Clerk to ensure that, when final assessed values are calculated, the City's mill levy does not exceed the revenue neutral rate. If it does, the city will need to amend the budget or refund any property taxes levied in excess of the revenue neutral rate.

Applying SB 13/HB 2104 to the Budget Process

STEP
1

Receive Revenue Neutral Rate from the County Clerk by June 15.

STEP
2

Determine the budget needs for City's upcoming budget year and determine the amount of property tax will be required to fund the budget.

STEP
3

Determine if the amount needed will require a tax levy exceeding the Revenue Neutral Rate.

If YES, follow these steps:

1. Notify the County Clerk by July 20 with the City's intent to exceed the revenue neutral rate.
2. Beginning in 2021 (for 2022 budget year), publish a notice on the city website and a newspaper of general circulation in the county. Notice must be given 10 days before the hearing. The notice must provide details for both a tax rate hearing and budget hearing.
3. No earlier than August 20 and no later than September 20, conduct a tax rate and budget hearing giving taxpayers an opportunity to comment on the budget.
4. Adopt a resolution or ordinance to exceed the revenue neutral rate.
5. Adopt the proposed budget or any lesser amount. A budget cannot exceed the amount proposed.
6. On or before October 1, certify to the County Clerk the amount to be levied.

If NO, follow these steps:

1. On or before August 5, publish the proposed budget and hearing notice (must include the RNR).
2. On or before August 15, hold a public hearing on the budget.
3. On or before August 25, certify the City budget and tax levies to the County Clerk.

NOTE: If the City does not hold a hearing to exceed the revenue neutral rate, the City will need to work with the County Clerk to ensure that, when final assessed values are calculated, the City's mill levy does not exceed the revenue neutral rate. If it does, the city will need to amend the budget or refund any property taxes levied in excess of the revenue neutral rate.



Beginning in 2022, the County Clerk will mail Revenue Neutral Rate notifications to all taxpayers.



Find this infographic, and other League infographics visit our website, www.lkm.org/infographics.