

SUBJECT: Limiting definition of debt for calculation of property tax rates

COMMITTEE: Ways and Means — committee substitute recommended

VOTE: 7 ayes — Meyer, Button, Martinez Fischer, Murphy, Noble, Sanford, Shine

1 nay — Cole

3 absent — Thierry, Guerra, Rodriguez

WITNESSES: For — Cheryl Johnson, Galveston County Tax Office; James Quintero, Texas Public Policy Foundation; Dale Craymer, Texas Taxpayers and Research Association; Dan Davis; (*Registered, but did not testify*: Paul Hodson and Wesley Whisenhunt, Grassroots Gold; David Mintz, Texas Apartment Association; Jerome Greener; Hartness; Hunter Maness; Michelle Mostert; Sam Pohl)

Against — Steve Williams, City of Conroe; Charles Reed, Dallas County Commissioners Court; Drew Masterson, Masterson Advisors LLC; Bill Longley, Texas Municipal League; (*Registered, but did not testify*: Peyton McKnight, American Council of Engineering Companies of Texas; Melissa Shannon, Bexar County Commissioners Court; Brie Franco, City of Austin; Jennifer Rodriguez, City of College Station and City of Coppell; Tammy Embrey and Heather Hurlbert, City of Corpus Christi; Clifford Sparks, City of Dallas; Kate Goodrich, City of Denton; Guadalupe Cuellar, City of El Paso; TJ Patterson, City of Fort Worth; Eddie Solis, City of Frisco; Sally Bakko, City of Galveston; Ty Embrey, City of Garland; Josh Schroeder, City of Georgetown; Andrew Fortune, City of Grand Prairie; Jamaal Smith, City of Houston, Office of the Mayor Sylvester Turner; Jon Weist, City of Irving; Brad Schlueter, City of Killeen; Angela Hale, City of McKinney; Julie Acevedo, City of Round Rock; Jeff Coyle, City of San Antonio; Shana Yelverton, City of Southlake; Jennifer May, City of Sugar Land; Adam Haynes, Conference of Urban Counties; Jim Allison, County Judges and Commissioners Association of Texas; Daniel Collins, County of El Paso; Ender Reed,

Harris County Commissioners Court; Dee Carney, Texas School Alliance;
Julie Wheeler, Travis County Commissioners Court)

On — (*Registered, but did not testify*: Korry Castillo, Comptroller of
Public Accounts)

BACKGROUND: Tax Code ch. 26 governs how local taxing units may propose and adopt property tax rates. Generally, a rate must be approved by election if a taxing unit adopts a rate exceeding the voter-approval rate, which is the rate that would increase property tax revenues by 3.5 percent for a taxing unit, or 8 percent for a special taxing unit, plus the current debt rate.

Under sec. 26.012, "debt" includes a bond, warrant, certificate of obligation, or other evidence of indebtedness that is payable solely from property taxes, not paid from maintenance and operations funds, and secured by a pledge of property taxes.

DIGEST: CSHB 1869 would limit the definition of "debt," for the purposes of calculating property taxes, to include a bond, warrant, certificate of obligation, or other evidence of indebtedness that also met one of the following criteria:

- was approved at an election;
- included self-supporting debt;
- evidenced a loan under a state or federal financial assistance program;
- was issued for designated infrastructure;
- was a refunding bond; or
- was issued in response to an emergency.

"Designated infrastructure" would include a facility or equipment for streets, roads, or highways; telecommunications; cyber security; or as part of a utility system, water or wastewater projects, a wharf or dock, or flood control or drainage project.

The bill would take effect September 1, 2021, and would apply only to

debt authorized on or after that date.

**SUPPORTERS
SAY:**

CSHB 1869 would specify the types of debt included in the calculation of a local taxing unit's voter-approval tax rate, ensuring that taxing units did not increase debt to circumvent tax limitations.

In 2019, the 86th Legislature enacted property tax reforms to require taxing units that proposed tax rates higher than a certain level, called the voter-approval rate, to hold an election so that voters could approve the increase. However, this limitation currently does not include many kinds of debt issued by the taxing unit, including certain certificates of obligation, that do not require voter approval. This loophole has led to Texas cities improperly issuing increasing amounts of debt to avoid holding an election.

The bill would close that loophole by specifying that the types of debt not included in the property tax revenue limitation only included voter-approved or self-supporting debt, state or federal loans, refunding bonds, and bonds issued for certain infrastructure projects or to respond to an emergency. This would allow essential and cost-saving financing to continue while protecting taxpayer interests by ensuring that local taxing units could not needlessly expand debt. The bill would not remove local governments' ability to issue debt but would provide for more local control by giving taxpayers a voice in whether debt should be issued.

**CRITICS
SAY:**

CSHB 1869 could restrict local governments' ability to finance important projects for their communities, such as health facilities for county hospital districts, public safety projects for police or firefighters, or public parks. This would infringe on local control and flexibility by further limiting how the elected representatives of a community set their budgets. Local budgetary flexibility is especially important in communities with high growth that need to respond quickly to calls for increased services, and the bill could impact economic development in those areas.

NOTES:

According to the Legislative Budget Board, the more limited definition of debt could establish a lower voter-approval tax rate, making it more

difficult for taxing units to increase rates, which would reduce property tax revenue. However, because the amount of future debt obligations that would be issued is unknown, the fiscal impact cannot be estimated.