SUBJECT: Authorizing property tax reductions and adjustments to school finance

COMMITTEE: Ways & Means — committee substitute recommended

VOTE: 9 ayes — Meyer, Thierry, Button, Craddick, Hefner, Noble, Raymond, Shine, Turner

0 nays

2 absent — Gervin-Hawkins, Muñoz

SENATE VOTE: On final passage (March 22) — 31 - 0

WITNESSES: None (*considered in formal meeting on May 12*)

BACKGROUND: Education Code sec. 48.2551 provides for the calculation of a school district's maximum compressed tax rate, which is the tax rate at which the district must levy a maintenance and operation tax to receive the full amount of the Tier 1 education allotment to which the district is entitled. It also provides formulas to limit the growth of the maximum compressed rate.

Some have suggested implementing provisions to create stability and predictability in appraisals could help to alleviate concerns about the state's share of public education funding and provide property tax relief to taxpayers.

DIGEST: CSSB 3 would lower property tax rates by reducing the maximum compressed tax rate for school districts, increasing the school district residence homestead tax exemption from $40,000 to $100,000, and lowering the appraisal cap on real property value increases.

The bill also would provide opportunities for school districts to receive state assistance for funding reductions related to property tax adjustments and provide property owners with additional options for making tax payments by requiring local tax collectors to establish escrow accounts at the request of a property owner.

School district maximum compressed tax rate. CSSB 3 would reduce the maximum compressed tax rate for each school district by $0.15 during the 2023-24 school year. If applying the reduction would lower a district's maximum compressed tax rate to less than 90 percent of another district's maximum compressed tax rate, the district's maximum compressed tax rate would be adjusted to equal 90 percent of the other district's maximum compressed tax rate.

To determine funding for the 2024-25 school year, the bill would require that the value of a district's prior year maximum compressed tax rate be the district's maximum compressed tax rate for the preceding year. The bill's provisions related to a district's maximum compressed tax rate would expire September 1, 2025.

School district residence homestead exemption. The school district residence homestead tax exemption would be increased from $40,000 to $100,000 of the appraised value of a residence homestead.

The bill also would revise calculations for the limitation on property taxes imposed on a residence homestead for an individual 65 years of age or older or an individual who is disabled to include the aggregate amount of qualifying exemptions and the length of time an owner had an applicable residence homestead tax exemption in certain calculations.

Appraisal cap. CSSB 3 would reduce the annual appraisal cap from 10 percent to 5 percent and would apply the cap to all real property, rather than to a residence homestead. The reduced cap would take effect on January 1 of the tax year following the first tax year in which the owner owned the property on January 1. The bill also would specify the circumstances under which the annual appraisal cap would expire.

Additional state aid for school districts. A school district would be eligible for additional state aid as follows:

- *Maximum compressed rate*. A school district that received an adjustment for the 2022-23 school year due to the lowering of the maximum compressed rate would be entitled to additional state aid for each school year in an amount equal to the amount of the adjustment and in accord with calculations under in the bill.
- *Local interest and sinking revenue*. A school district would be eligible for additional state aid to the extent that state and local revenue used to service debt had been reduced due to the increased residence homestead exemption and any additional limitation on tax increases.
- *Limitation on value increases for elderly and disabled*. If a school district was not fully compensated through state aid or the calculation of excess local revenue, the district would be entitled to additional state aid in the amount necessary to fully compensate the district for the amount of property tax revenue lost due to a reduction of the amount of the limitation on tax increases.
- *Homestead exemption*. A school district would be entitled to additional state aid to the extent that state and local revenue collected was reduced due to an increase in the homestead tax exemption and any additional limitation on tax increases.

Local revenue in excess of entitlement. The bill would add certain temporary provisions related to school district options for reducing local revenue in excess of entitlement for the 2023-24 school year to reflect revenue changes related to the property tax reductions authorized by the bill. The bill would require the commissioner to set a date for elections necessary for voters to approve an option selected by a district.

In no later than the 2024-25 school year, the commissioner would be required to order detachment and annexation or consolidation as necessary to reduce a district's local revenue level if the district selected such options and received commissioner approval but either failed to hold the required election or did not receive voter approval at an election. This provision would expire September 1, 2025.

School districts that selected the option to purchase average daily attendance credit to account for excess local revenue and received commissioner approval would have the option to pay for the purchased credit in equal installments between March 15, 2024 and August 15, 2024, or pay in one lump sum provided the district notified the commissioner of this desire by March 15, 2024.

Transitional tax year. The bill would include transitional provisions for the assessor, chief appraiser, and taxing unit to assess applicable property, prepare the tax roll, prepare supplemental appraisal records, determine taxable value, and calculate the no-new-revenue tax rate and the voter-approval taxing rate, as applicable, to account for changes made to the calculation of property taxes included in the bill.

Homestead. References to "homestead" in applicable sections of the Tax Code would be changed to "property" and references to "residence homestead" would be changed to "real property" to align with the extension of the annual appraisal cap to real property. Real property also would be expanded to include a manufactured home whether or not the owner elected to treat the home as real property.

Escrow accounts. At the request of the property owner, CSSB 3 would require a local property tax collector to enter into a contract that would allow the property owner to make payments into an escrow account maintained by the tax collector to pay the owner's property taxes. The requirement would apply only to a tax year beginning on or after January 1, 2024.

Effective dates. The bill would include varying effective dates as follows:

- changes related to the increase in the school district residence homestead limitation would take effect on the date the constitutional amendment proposed by CSSJR 3 would take effect;
- changes related to the school district excess local revenue requirements would take effect immediately if the bill received a two-thirds vote of all members elected to each house;
- new requirements for escrow accounts would take effect on

January 1, 2024;

- the limitation on appraised value would take effect on the date the constitutional amendment proposed by CSSJR 3 would take effect;
- transitional tax year activities would take effect immediately if the bill received two-thirds vote of all members elected to each house; and
- all remaining provisions would take effect on September 1, 2023.

NOTES:

CSSB 3 is the enabling legislation for CSSJR 3, which is also on the daily House calendar for second reading consideration today.

According to the Legislative Budget Board, CSSB 3 would have a negative impact of about $16.3 billion on general revenue related funds through the biennium ending August 31, 2025.