SUBJECT: Providing property tax relief

COMMITTEE: Ways & Means — favorable, without amendment

VOTE: 9 ayes — Meyer, Thierry, Button, Gervin-Hawkins, Hefner, Noble, Raymond, Shine, Turner

0 nays

2 absent — Craddick, Muñoz

WITNESSES: For — Tray Bates, Texas Realtors (*Registered, but did not testify*: Annie Spilman, NFIB; Charlotte Blakemore, Popp Hutcheson PLLC; Jim Popp, Popp Hutcheson PLLC; Billy Phoenix, Texas Association of Builders; Seth Juergens, Julia Parenteau, Texas Realtors)

Against — None

On — (*Registered, but did not testify*: Shannon Murphy, Comptroller of Public Accounts; Mike Meyer, Texas Education Agency)

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.

DIGEST: HB 2 would lower property tax rates by reducing the maximum compressed tax rate (MCR) for school districts and increasing the school district residence homestead tax exemption from $40,000 to $100,000. The bill also would limit certain real property tax appraisal increases for three years, provide state assistance to school districts for funding reductions related to property tax adjustments, and add three elected members to appraisal boards in counties with populations of 75,000 or more.

School district maximum compressed tax rate. HB 2 would reduce the MCR for each school district by $0.107 during the 2023-24 school year. If applying the reduction would lower a district's MCR to less than 90 percent of that of another district, the district's MCR would be adjusted to equal 90 percent of the other district's MCR. HB 2 also would establish that, to determine funding for the 2023-2024 school year, certain statutory references pertaining to a school district's maximum compressed tax rate would mean the MCR as reduced by the bill. To determine funding for the 2024-25 school year, the bill would require that the value of a district's prior year MCR ("PYMCR") be the district's MCR for the preceding year. The bill’s provisions related to a district's MCR would expire September 1, 2025.

Residence homestead exemption. HB 2 would increase the school district residence homestead tax exemption from $40,000 to $100,000 of the appraised value of a residence homestead. The bill also would revise certain calculations for the limitation on property taxes imposed on a residence homestead for an individual 65 years of age or older or a disabled individual to include the aggregate amount of qualifying exemptions and the length of time an owner had an applicable residence homestead tax exemption as well as certain other tax exemptions for which the individuals qualified in a preceding tax year.

Additional state aid for school districts. A school district impacted by property tax reductions authorized by the bill would be eligible for additional state aid as follows:

- *Maximum compressed tax rate (MCR).* A school district that received an adjustment for the 2022-23 school year due to lowering 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 as determined by calculations described in the bill.
- *Debt service.* A school district would be eligible for additional state aid if state and local revenue used to service debt had been reduced due to the increase in the residence homestead exemption and any

additional limitation on tax increases.

- *Local interest and sinking revenue*. Additional state aid would also be available to a school district to address the amount by which local interest and sinking revenue could be attributed to changes in the residence homestead exemption and any additional limitation on tax increases that was not offset by a gain in state aid established by the bill.
- *Limitation on value increases for elderly and disabled*. If a school district were 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 if state and local revenue collected was less than the level of revenue that would have been available to the district on September 1, 2022.

Local revenue in excess of entitlement. As soon as practicable after receiving revised property values that reflect adoption of the constitutional amendment, the Texas Education Agency commissioner would be required to review the local revenue level of districts and revise as necessary notifications regarding excess revenue, property annexation, and district consolidations to each relevant district for the 2023-24 school year. 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.

By 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 and were authorized by the commissioner to purchase average daily attendance credit to account for excess local revenue would have the option to pay for the purchased credit in equal monthly installments between March 15, 2024 and August 15, 2024, or pay in one lump sum, provided that the district notified the commissioner of its intent to do so 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.

Real property appraised value limit. Excluding property which qualifies for a homestead exemption, an appraisal office would be authorized to increase the appraisal values for real property valued at $5 million dollars or less to the lesser of either the market value of the property for the most recent tax year in which the market value was determined by the appraisal office or the sum of 20 percent of the appraised value of the property for the preceding year, the appraised value of property for the preceding tax year, and the market value of any new improvements to the property. The bill would clarify what constitutes a new improvement for consideration as part of the property's value.

When appraising real property subject to this provision, the chief appraiser would be required to appraise the property at its market value and include in the appraisal records both the market value of the property and the amount determined by the calculations listed above.

For the 2025 tax year, the comptroller would be required to either increase or decrease the $5 million maximum property value limit by multiplying the value by the percentage increase or decrease in the consumer price index in the preceding fiscal year. HB 2 would require that the comptroller repeat this process for each subsequent year, with the value rounded to the nearest $10,000, and publish the amount in effect for a tax year as soon as practicable after January 1 of that year. The provisions related to calculating this appraisal limit would expire on December 31, 2026.

The chief appraiser would be required to provide property owners with a statement of whether a property would qualify for the limitation on appraised value. Real property owners would also receive notification that for the 2024, 2025, and 2026 tax years, the appraised value of the property could not be increased by more than 20 percent each year, with certain exceptions. The notice would also have to identify that, unless the expiration date is extended by the Legislature, beginning in the 2027 tax year, the limitation would expire which could result in an increase in property taxes imposed on the real property.

Appraisal districts. Membership on the board of directors for appraisal districts in counties with a population of 75,000 or more would be increased from five to nine members. Five of the members would be appointed by the taxing units that participate in the district, three members would be elected by a majority vote during the general election for state and county officers, and the county assessor-collector would serve as an ex officio member. Qualifications for serving as a board member, terms of office, and the process for addressing vacancies would be established by the bill. The duties of the taxpayer liaison would be expanded to provide support to the applicable appointing authority established by the appraisal review board.

The bill also would include ballot procedures for elected directors, filing fees, and the process for recalling a board member that had been appointed by the district's taxing units.

Contingency. The bill would be contingent on the passage of SB 3 or similar legislation that would revise franchise tax provisions.

Effective dates. The bill would include varying effective dates:

- changes related to the maximum compressed tax rate and increase in the school district residence homestead exemption would take effect on the date the constitutional amendment proposed by HJR 2 took effect;
- changes related to real property appraised value limits and the appraisal district board of directors would take effect on January 1, 2024 only if the constitutional amendment proposed by HJR 2 is approved by voters;
- 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, or on the 91st day after the last day of the legislative session if not; and
- all remaining provisions would take effect on the 91st day after the end of session.

SUPPORTERS SAY:

HB 2, cited as the Property Tax Relief Act, would provide significant property tax relief to homeowners and other property owners throughout the state at a time when many Texans are struggling under the weight of increased property taxes driven by rapidly rising property values. By reducing the maximum compressed tax rate for school districts, increasing the amount of the general school district residence homestead exemption, and providing for a 20 percent limit on the maximum annual appraised-value increase for certain non-homestead real property for three years, HB 2 would provide substantial property tax relief to homeowners and businesses.

The bill would increase the overall state contribution to education and provide a higher level of state investment in Texas schools. To ensure schools continued to operate with the same level of revenue, HB 2 would require the state to repay any revenue losses experienced by the districts. The Legislature intends to continue its work on school funding and teacher compensation should be addressed through other legislation in a future special session.

Compression. Adjusting the school district maximum compressed tax rate would provide broad-based tax relief for all property owners in the state. Lowering property tax obligations through tax rate compression would help homeowners as well as businesses. A reduction in property taxes could help stabilize struggling businesses and propel them to grow and further contribute to the overall Texas economy.

In addition to property owners, the bill also would benefit renters by reducing the amount of property taxes that could be passed on to tenants by landlords, resulting in smaller rent increases. The reduction in the MCR also would provide long-term relief for all property owners as the reduction would continue to apply consistently as property values increased.

Homestead exemption. Raising the homestead exemption would provide for a more evenly distributed tax reduction as every homeowner receiving the homestead exemption would receive the same reduction in their property's taxable value. Additionally, adjusting the homestead exemption would especially benefit owners of moderately-priced homes, where relief is most needed. Compression reductions along with the increased homestead exemption would help prevent a measurable shift of the burden for school property taxes from homeowners to businesses.

Real property appraised value. The annual limit on the growth of appraised value for non-homestead real property valued at less than $5 million established under the bill would help more small business owners stay in business. Many small and medium-sized businesses that own their property are struggling to stay in business due to dramatic increases in property values and taxes. The bill would provide more predictability for small businesses in Texas over the next three years and help to reduce their out-of-pocket costs.

Appraisal districts. HB 2 also would provide for important changes to the structure of appraisal district boards. By establishing elected appraisal district board members, the bill could help to provide taxpayers with local directors that listen more to the concerns of taxpayers in their district.

CRITICS

While HB 2 would provide property tax relief to many Texas homeowners

SAY:

and businesses, the reductions could be short-term, lead to higher consumer prices, or require future cuts to education funding. These property tax reductions could be unsustainable, as the state relies on a limited number of taxes for funding. Reducing property taxes could make the state more vulnerable to not meeting its funding obligations in the case of a recession. With less reliance on property taxes, school funding could be in jeopardy if the state faces a decline in sales tax revenue, which could result in school funding cuts or a need to raise taxes.

Compression. Reducing the school district MCR would be a less reliable solution to rising taxes. Lowering the MCR would require higher state contributions to ensure schools receive full funding. Should the state experience a downturn in the economy or sales taxes underperform, the MCR may need to be adjusted or increased to reduce the state contribution to schools, which could lead to tax increases in order to recoup the loss of state dollars. A reliance on the MCR could lead to volatility for property owners and put education funding at risk for future cuts.

Reducing the MCR would provide a higher level of benefit to businesses, owners of multiple properties, and high-income earners than to middle and lower-income homeowners.

Compression also would not necessarily help those who rent, as there is no guarantee that rents will decrease as a result of reduced property taxes. High demand for rental property and limited supply could keep rents high and continue to drive substantive increases. Providing a rebate on rent would more directly benefit renters.

Homestead exemption. While raising the homestead exemption would provide property tax relief for homeowners, increasing property values could reduce the benefits of an exemption and require further adjustments to ensure the exemption maintained the same or similar level of benefit for homeowners. Increasing the homestead exemption would reduce tax collections from homeowners and could shift more of the school funding tax burden to businesses and other taxpayers. Such a shift could lead to higher prices for goods and services.

Appraisal districts. Individuals seeking election to an appraisal district board could be more interested in in reducing property values than attending to the overall business of the board, which could impact the board's ability to complete its necessary functions.

OTHER CRITICS SAY:

While property tax relief is an important issue, the bill fails to include measures addressing teacher pay and other salary enhancements. As the Legislature contemplates such significant changes to school funding, it should also discuss means to further support teachers and retain talent in our classrooms.

NOTES:

HB 2 is the enabling legislation for HJR 2, which is also on the daily House calendar for second reading consideration today.

According to the Legislative Budget Board, HB 2 would have a negative impact of $12,700,000,000 on general revenue related funds through the biennium ending August 31, 2025.