

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATURE 3rd CALLED SESSION - 2006
Revision 1

May 9, 2006

TO: Honorable Jim Keffer, Chair, House Committee on Ways & Means

FROM: John S. O'Brien, Deputy Director, Legislative Budget Board

IN RE: HB164 by Isett, Cheri (Relating to certain limitations on the ad valorem tax rates of school districts and other taxing units.), **As Introduced**

State general revenue obligations would be reduced as a result of this legislation.
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The bill would amend Chapter 26 of the Tax Code to reduce the maintenance and operations (M&O) rollback rate factor from 1.08 to 1.05 for all taxing units except school districts.

The bill would further amend Chapter 26 of the Tax Code to change school district rollback calculations.

In tax year 2006, districts with 2005 rates at \$1.50 would have a rollback rate of \$1.36. The rollback rate for districts with a 2005 M&O rate below \$1.50 would be the lesser of \$1.36 or the effective M&O rate plus six cents. For districts whose 2005 rate exceeded \$1.50, the rollback rate would be 88.67 percent of their 2005 rate, plus three cents.

In tax year 2007 and subsequent years, the rollback rate for school districts having a \$1.50 rate in 2005 would be the lesser of the 2006 rate or the effective M&O rate plus six cents. For districts whose 2005 rate was less than \$1.50, the rollback rate would be the lesser of \$1.36 or their effective M&O tax rate plus six cents. For districts having a 2005 rate higher than \$1.50, the rollback rate would be the lesser of previous years' highest rate or the effective M&O rate plus six cents. Districts would be prohibited from exceeding their 2006 rate plus 17 cents.

The provisions of law governing the distribution of state aid to school districts are unamended by this legislation. Under current law, the state guarantees a specified amount of revenue to school districts per penny of tax effort under Tier II of the Foundation School Program. To the extent that local tax effort is reduced as a result of this legislation, state aid payments would also be reduced. This would result in a savings to the state and a loss of revenue to school districts. This would be offset to the extent that attendance credits paid by property wealthy districts would also be reduced.

The bill would take effect immediately upon enactment, assuming that it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect on the 91st day after the last day of the legislative session.

Local Government Impact

The fiscal impact of this bill would depend on future actions by local taxing units relative to the adoption of property tax rates. Because most school districts are at or near a \$1.50 tax rate, most school districts would incur a substantial decrease in revenue and would have to seek voter approval to maintain current local revenue funding. The legislation does not provide a mechanism by which the associated reduction in state aid would be replaced, resulting in a significant loss of state aid to school districts eligible for funding under Tier II of the Foundation School Program.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, SD, SJS, UP