

BILL ANALYSIS

C.S.H.B. 1965
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Ways & Means
Committee Report (Substituted)

BACKGROUND AND PURPOSE

Interested parties identify a need for property tax relief and more consistency in terms of the amount of tax people pay. C.S.H.B. 1965 seeks to implement a property tax cut plan to address that need.

CRIMINAL JUSTICE IMPACT

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

C.S.H.B. 1965 amends the Tax Code to change the multiplier used in calculating the maintenance and operations portion of a taxing unit's rollback tax rate from 1.08 to 1.06. The bill authorizes the governing body of a taxing unit to direct the officer or employee designated by the governing body to calculate the unit's effective tax rate and rollback tax rate to substitute "1.08" for "1.06" in the calculation of the rollback tax rate if any part of the taxing unit is located in an area declared a disaster area during the current tax year by the governor or by the president of the United States.

C.S.H.B. 1965 repeals provisions authorizing the qualified voters of a taxing unit other than a school district to petition for an election to reduce an adopted tax rate that exceeds the rollback tax rate and establishing procedures regarding such an election. The bill instead makes statutory provisions relating to the requirement that a tax rate adopted by a school district in excess of the district's rollback tax rate be approved by voters at an election generally applicable to tax rates adopted by any taxing unit.

C.S.H.B. 1965 amends the Water Code to change the multiplier used in calculating the maintenance and operations portion of a water district's rollback tax rate from 1.08 to 1.06. The bill removes provisions authorizing the qualified voters of a district by petition, if the district's governing body adopts a combined debt service, operation and maintenance, and contract tax rate that would impose more than 1.08 times the amount of tax imposed by the district in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead in the district in that year, to require that an election be held to determine whether or not to reduce the current year's tax rate to the rollback tax rate. The bill instead requires an election to be held if a district's governing body adopts a combined debt service, operation and maintenance, and contract tax rate that exceeds the rollback tax rate for a water district. The bill authorizes the governing board of a water district to substitute "eight percent" for "six percent"

or "1.08" for "1.06," as applicable with regard to the calculation of the maintenance and operations portion of the district's rollback tax rate, if any part of the district is located in an area declared a disaster area during the current tax year by the governor or by the president of the United States.

C.S.H.B. 1965 amends the Education Code, the Health and Safety Code, the Local Government Code, the Special District Local Laws Code, and the Water Code to make conforming and nonsubstantive changes. The bill's provisions apply to the property tax rate of a taxing unit beginning with the 2015 tax year, unless the governing body of a taxing unit adopted a property tax rate for the taxing unit for the 2015 tax year before the bill's effective date, in which case the bill's provisions apply to the property tax rate of that taxing unit beginning with the 2016 tax year, and the law in effect when the tax rate was adopted applies to the 2015 tax year with respect to that taxing unit.

C.S.H.B. 1965 repeals the following provisions:

- Section 1063.255, Special District Local Laws Code
- Section 26.07, Tax Code
- Section 49.236, Water Code, as added by Chapter 248 (H.B. 1541), Acts of the 78th Legislature, Regular Session, 2003

EFFECTIVE DATE

On passage, or, if the bill does not receive the necessary vote, the 91st day after the last day of the legislative session.

COMPARISON OF ORIGINAL AND SUBSTITUTE

While C.S.H.B. 1965 may differ from the original in minor or nonsubstantive ways, the following comparison is organized and formatted in a manner that indicates the substantial differences between the introduced and committee substitute versions of the bill.

INTRODUCED

SECTION 1. Section 26.012, Tax Code, is amended by adding Subdivisions (2-a) and (10-a) to read as follows:

(2-a) "Consumer price index" means the average over a calendar year of the index that the comptroller considers to most accurately report changes in the purchasing power of the dollar for consumers in this state.

(10-a) "Inflation rate" means the amount, expressed in decimal form rounded to the nearest thousandth, computed by determining the percentage change in the consumer price index for the preceding calendar year as compared to the consumer price index for the calendar year preceding that calendar year.

SECTION 2. Section 26.04, Tax Code, is amended by adding Subsection (b-1) and amending Subsection (c) to read as follows:

HOUSE COMMITTEE SUBSTITUTE

No equivalent provision.

SECTION 1. Section 26.04, Tax Code, is amended by amending Subsection (c) and adding Subsection (c-1) to read as follows:

(b-1) By August 1 or as soon thereafter as practicable, the comptroller shall determine the inflation rate for the current year and publish the rate in the Texas Register.

(c) An officer or employee designated by the governing body shall calculate the effective tax rate and the rollback tax rate for the unit, where:

(1) "Effective tax rate" means a rate expressed in dollars per \$100 of taxable value calculated according to the following formula:

$$\text{EFFECTIVE TAX RATE} = (\text{LAST YEAR'S LEVY} - \text{LOST PROPERTY LEVY}) / (\text{CURRENT TOTAL VALUE} - \text{NEW PROPERTY VALUE})$$

; and

(2) "Rollback tax rate" means a rate expressed in dollars per \$100 of taxable value calculated according to the following formula:

$$\text{ROLLBACK TAX RATE} = (\text{EFFECTIVE MAINTENANCE AND OPERATIONS RATE} \times (1 + \text{INFLATION RATE}) + \text{CURRENT DEBT RATE})$$

No equivalent provision.

SECTION 3. Sections 26.041(a), (b), and (c), Tax Code, are amended to read as follows:

(a) In the first year in which an additional sales and use tax is required to be collected, the effective tax rate and rollback tax rate for the unit are calculated according to the following formulas:

$$\text{EFFECTIVE TAX RATE} = [(\text{LAST YEAR'S LEVY} - \text{LOST PROPERTY LEVY}) / (\text{CURRENT TOTAL VALUE} - \text{NEW PROPERTY VALUE})] - \text{SALES TAX GAIN RATE}$$

and

$$\text{ROLLBACK TAX RATE} = (\text{EFFECTIVE MAINTENANCE AND OPERATIONS RATE} \times (1 + \text{INFLATION RATE}) + \text{CURRENT DEBT RATE})$$

No equivalent provision.

(c) An officer or employee designated by the governing body shall calculate the effective tax rate and the rollback tax rate for the unit, where:

(1) "Effective tax rate" means a rate expressed in dollars per \$100 of taxable value calculated according to the following formula:

$$\text{EFFECTIVE TAX RATE} = (\text{LAST YEAR'S LEVY} - \text{LOST PROPERTY LEVY}) / (\text{CURRENT TOTAL VALUE} - \text{NEW PROPERTY VALUE})$$

; and

(2) "Rollback tax rate" means a rate expressed in dollars per \$100 of taxable value calculated according to the following formula:

$$\text{ROLLBACK TAX RATE} = (\text{EFFECTIVE MAINTENANCE AND OPERATIONS RATE} \times (1.06 + \text{CURRENT DEBT RATE}))$$

(c-1) Notwithstanding any other provision of this section, the governing body may direct the designated officer or employee to substitute "1.08" for "1.06" in the calculation of the rollback tax rate if any part of the taxing unit is located in an area declared a disaster area during the current tax year by the governor or by the president of the United States.

SECTION 2. Section 26.041, Tax Code, is amended by amending Subsections (a), (b), and (c) and adding Subsection (c-1) to read as follows:

(a) In the first year in which an additional sales and use tax is required to be collected, the effective tax rate and rollback tax rate for the unit are calculated according to the following formulas:

$$\text{EFFECTIVE TAX RATE} = [(\text{LAST YEAR'S LEVY} - \text{LOST PROPERTY LEVY}) / (\text{CURRENT TOTAL VALUE} - \text{NEW PROPERTY VALUE})] - \text{SALES TAX GAIN RATE}$$

and

$$\text{ROLLBACK TAX RATE} = (\text{EFFECTIVE MAINTENANCE AND OPERATIONS RATE} \times (1.06 + \text{CURRENT DEBT RATE}))$$

CURRENT DEBT RATE - SALES TAX GAIN RATE

where "sales tax gain rate" means a number expressed in dollars per \$100 of taxable value, calculated by dividing the revenue that will be generated by the additional sales and use tax in the following year as calculated under Subsection (d) [~~of this section~~] by the current total value.

(b) Except as provided by Subsections (a) and (c) [~~of this section~~], in a year in which a taxing unit imposes an additional sales and use tax the rollback tax rate for the unit is calculated according to the following formula, regardless of whether the unit levied a property tax in the preceding year:

$$\text{ROLLBACK TAX RATE} = \frac{[(\text{LAST YEAR'S MAINTENANCE AND OPERATIONS EXPENSE} \times (1 + \text{INFLATION RATE}) \text{ [1.08]}) / ((\text{TOTAL} \text{ CURRENT TOTAL VALUE} - \text{NEW PROPERTY VALUE})) + (\text{CURRENT DEBT RATE} - \text{SALES TAX REVENUE RATE})]$$

where "last year's maintenance and operations expense" means the amount spent for maintenance and operations from property tax and additional sales and use tax revenues in the preceding year, and "sales tax revenue rate" means a number expressed in dollars per \$100 of taxable value, calculated by dividing the revenue that will be generated by the additional sales and use tax in the current year as calculated under Subsection (d) [~~of this section~~] by the current total value.

(c) In a year in which a taxing unit that has been imposing an additional sales and use tax ceases to impose an additional sales and use tax the effective tax rate and rollback tax rate for the unit are calculated according to the following formulas:

$$\text{EFFECTIVE TAX RATE} = \frac{[(\text{LAST YEAR'S LEVY} - \text{LOST PROPERTY LEVY}) / (\text{CURRENT TOTAL VALUE} - \text{NEW PROPERTY VALUE})] + \text{SALES TAX LOSS RATE}}$$

and

$$\text{ROLLBACK TAX RATE} = \frac{[(\text{LAST YEAR'S MAINTENANCE AND OPERATIONS EXPENSE} \times (1 + \text{INFLATION RATE}) \text{ [1.08]}) / ((\text{TOTAL} \text{ CURRENT TOTAL VALUE} - \text{NEW PROPERTY VALUE})) + \text{CURRENT DEBT RATE}]$$

RATE - SALES TAX GAIN RATE

where "sales tax gain rate" means a number expressed in dollars per \$100 of taxable value, calculated by dividing the revenue that will be generated by the additional sales and use tax in the following year as calculated under Subsection (d) [~~of this section~~] by the current total value.

(b) Except as provided by Subsections (a) and (c) [~~of this section~~], in a year in which a taxing unit imposes an additional sales and use tax the rollback tax rate for the unit is calculated according to the following formula, regardless of whether the unit levied a property tax in the preceding year:

$$\text{ROLLBACK TAX RATE} = \frac{[(\text{LAST YEAR'S MAINTENANCE AND OPERATIONS EXPENSE} \times 1.06 \text{ [1.08]}) / ((\text{TOTAL} \text{ CURRENT TOTAL VALUE} - \text{NEW PROPERTY VALUE})) + (\text{CURRENT DEBT RATE} - \text{SALES TAX REVENUE RATE})]$$

where "last year's maintenance and operations expense" means the amount spent for maintenance and operations from property tax and additional sales and use tax revenues in the preceding year, and "sales tax revenue rate" means a number expressed in dollars per \$100 of taxable value, calculated by dividing the revenue that will be generated by the additional sales and use tax in the current year as calculated under Subsection (d) [~~of this section~~] by the current total value.

(c) In a year in which a taxing unit that has been imposing an additional sales and use tax ceases to impose an additional sales and use tax the effective tax rate and rollback tax rate for the unit are calculated according to the following formulas:

$$\text{EFFECTIVE TAX RATE} = \frac{[(\text{LAST YEAR'S LEVY} - \text{LOST PROPERTY LEVY}) / (\text{CURRENT TOTAL VALUE} - \text{NEW PROPERTY VALUE})] + \text{SALES TAX LOSS RATE}}$$

and

$$\text{ROLLBACK TAX RATE} = \frac{[(\text{LAST YEAR'S MAINTENANCE AND OPERATIONS EXPENSE} \times 1.06 \text{ [1.08]}) / ((\text{TOTAL} \text{ CURRENT TOTAL VALUE} - \text{NEW PROPERTY VALUE})) + \text{CURRENT DEBT RATE}]$$

where "sales tax loss rate" means a number expressed in dollars per \$100 of taxable value, calculated by dividing the amount of sales and use tax revenue generated in the last four quarters for which the information is available by the current total value and "last year's maintenance and operations expense" means the amount spent for maintenance and operations from property tax and additional sales and use tax revenues in the preceding year.

No equivalent provision.

SECTION 4. The heading to Section 26.08, Tax Code, is amended.

SECTION 5. Sections 26.08(a), (b), (d), (d-1), (d-2), (e), and (h), Tax Code, are amended.

SECTION 6. Section 26.16(d), Tax Code, is amended.

SECTION 7. Sections 31.12(a) and (b), Tax Code, are amended.

SECTION 8. Section 33.08(b), Tax Code, is amended.

SECTION 9. Section 130.016(b), Education Code, is amended.

SECTION 10. Sections 281.124(d) and (e), Health and Safety Code, are amended.

SECTION 11. Section 140.010(e), Local Government Code, is amended.

SECTION 12. Section 1101.254(f), Special District Local Laws Code, is amended.

SECTION 13. Sections 3828.157 and 8876.152, Special District Local Laws Code, are amended.

where "sales tax loss rate" means a number expressed in dollars per \$100 of taxable value, calculated by dividing the amount of sales and use tax revenue generated in the last four quarters for which the information is available by the current total value and "last year's maintenance and operations expense" means the amount spent for maintenance and operations from property tax and additional sales and use tax revenues in the preceding year.

(c-1) Notwithstanding any other provision of this section, the governing body may direct the designated officer or employee to substitute "1.08" for "1.06" in the calculation of the rollback tax rate if any part of the taxing unit is located in an area declared a disaster area during the current tax year by the governor or by the president of the United States.

SECTION 3. Same as introduced version.

SECTION 4. Same as introduced version.

SECTION 5. Same as introduced version.

SECTION 6. Same as introduced version.

SECTION 7. Same as introduced version.

SECTION 8. Same as introduced version.

SECTION 9. Same as introduced version.

SECTION 10. Substantially the same as introduced version.

SECTION 11. Same as introduced version.

SECTION 12. Same as introduced version.

SECTION 14. Section 49.107(g), Water Code, is amended.

SECTION 15. Section 49.108(f), Water Code, is amended.

SECTION 16. Section 49.236, Water Code, as added by Chapter 335 (S.B. 392), Acts of the 78th Legislature, Regular Session, 2003, is amended by amending Subsections (a) and (d) and adding Subsection (e) to read as follows:

(a) Before the board adopts an ad valorem tax rate for the district for debt service, operation and maintenance purposes, or contract purposes, the board shall give notice of each meeting of the board at which the adoption of a tax rate will be considered. The notice must:

(1) contain a statement in substantially the following form:

"NOTICE OF PUBLIC HEARING ON TAX RATE

"The (name of the district) will hold a public hearing on a proposed tax rate for the tax year (year of tax levy) on (date and time) at (meeting place). Your individual taxes may increase or decrease, depending on the change in the taxable value of your property in relation to the change in taxable value of all other property and the tax rate that is adopted.

"(Names of all board members and, if a vote was taken, an indication of how each voted on the proposed tax rate and an indication of any absences.)";

(2) contain the following information:

(A) the district's total adopted tax rate for the preceding year and the proposed tax rate, expressed as an amount per \$100;

(B) the difference, expressed as an amount per \$100 and as a percent increase or decrease, as applicable, in the proposed tax rate compared to the adopted tax rate for the preceding year;

(C) the average appraised value of a residence homestead in the district in the preceding year and in the current year; the district's total homestead exemption, other than an exemption available only to disabled persons or persons 65 years of age or older, applicable to that appraised value in each of those years; and the average taxable value of a residence homestead in the district in each of those years, disregarding any homestead

SECTION 13. Same as introduced version.

SECTION 14. Same as introduced version.

SECTION 15. Section 49.236, Water Code, as added by Chapter 335 (S.B. 392), Acts of the 78th Legislature, Regular Session, 2003, is amended by amending Subsections (a) and (d) and adding Subsection (e) to read as follows:

(a) Before the board adopts an ad valorem tax rate for the district for debt service, operation and maintenance purposes, or contract purposes, the board shall give notice of each meeting of the board at which the adoption of a tax rate will be considered. The notice must:

(1) contain a statement in substantially the following form:

"NOTICE OF PUBLIC HEARING ON TAX RATE

"The (name of the district) will hold a public hearing on a proposed tax rate for the tax year (year of tax levy) on (date and time) at (meeting place). Your individual taxes may increase or decrease, depending on the change in the taxable value of your property in relation to the change in taxable value of all other property and the tax rate that is adopted.

"(Names of all board members and, if a vote was taken, an indication of how each voted on the proposed tax rate and an indication of any absences.)";

(2) contain the following information:

(A) the district's total adopted tax rate for the preceding year and the proposed tax rate, expressed as an amount per \$100;

(B) the difference, expressed as an amount per \$100 and as a percent increase or decrease, as applicable, in the proposed tax rate compared to the adopted tax rate for the preceding year;

(C) the average appraised value of a residence homestead in the district in the preceding year and in the current year; the district's total homestead exemption, other than an exemption available only to disabled persons or persons 65 years of age or older, applicable to that appraised value in each of those years; and the average taxable value of a residence homestead in the district in each of those years, disregarding any homestead

exemption available only to disabled persons or persons 65 years of age or older; (D) the amount of tax that would have been imposed by the district in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead in that year, disregarding any homestead exemption available only to disabled persons or persons 65 years of age or older;

(E) the amount of tax that would be imposed by the district in the current year on a residence homestead appraised at the average appraised value of a residence homestead in that year, disregarding any homestead exemption available only to disabled persons or persons 65 years of age or older, if the proposed tax rate is adopted; and

(F) the difference between the amounts of tax calculated under Paragraphs (D) and (E), expressed in dollars and cents and described as the annual percentage increase or decrease, as applicable, in the tax to be imposed by the district on the average residence homestead in the district in the current year if the proposed tax rate is adopted; and

(3) contain a statement in substantially the following form:

"NOTICE OF VOTE ON TAX RATE [~~TAXPAYERS' RIGHT TO ROLLBACK ELECTION~~]

"If operation and maintenance taxes on the average residence homestead increase by more than the inflation rate, [~~eight percent~~, ~~the qualified voters of the district by petition may require that~~] an election must be held to determine whether to ratify [~~reduce~~] the operation and maintenance tax rate [~~to the rollback tax rate~~] under Section 49.236(d), Water Code."

(d) If the governing body of a district adopts a combined debt service, operation and maintenance, and contract tax rate that exceeds the rollback tax rate, [~~would impose more than 1.08 times the amount of tax imposed by the district in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead in the district in that year, disregarding any homestead exemption available only to disabled persons or persons 65 years of age or older, the qualified voters of the district by petition~~

exemption available only to disabled persons or persons 65 years of age or older; (D) the amount of tax that would have been imposed by the district in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead in that year, disregarding any homestead exemption available only to disabled persons or persons 65 years of age or older;

(E) the amount of tax that would be imposed by the district in the current year on a residence homestead appraised at the average appraised value of a residence homestead in that year, disregarding any homestead exemption available only to disabled persons or persons 65 years of age or older, if the proposed tax rate is adopted; and

(F) the difference between the amounts of tax calculated under Paragraphs (D) and (E), expressed in dollars and cents and described as the annual percentage increase or decrease, as applicable, in the tax to be imposed by the district on the average residence homestead in the district in the current year if the proposed tax rate is adopted; and

(3) contain a statement in substantially the following form:

"NOTICE OF VOTE ON TAX RATE [~~TAXPAYERS' RIGHT TO ROLLBACK ELECTION~~]

"If operation and maintenance taxes on the average residence homestead increase by more than six [eight] percent, [~~the qualified voters of the district by petition may require that~~] an election must be held to determine whether to ratify [~~reduce~~] the operation and maintenance tax rate [~~to the rollback tax rate~~] under Section 49.236(d), Water Code."

(d) If the governing body of a district adopts a combined debt service, operation and maintenance, and contract tax rate that exceeds the rollback tax rate, [~~would impose more than 1.08 times the amount of tax imposed by the district in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead in the district in that year, disregarding any homestead exemption available only to disabled persons or persons 65 years of age or older, the qualified voters of the district by petition~~

~~may require that~~ an election must be held to determine whether ~~[or not]~~ to ratify ~~[reduce]~~ the tax rate adopted for the current year ~~[to the rollback tax rate]~~ in accordance with the procedures provided by Sections 26.08(b)-(d) ~~[26.07(b)-(g) and 26.081]~~, Tax Code. For purposes of Sections 26.08(b)-(d) ~~[26.07(b)-(g)]~~ and this subsection, the rollback tax rate is the sum of the following tax rates:

- (1) the current year's debt service tax rate;
- (2) the current year's ~~[and]~~ contract tax rate;
and
- (3) ~~[rates plus]~~ the operation and maintenance tax rate that would impose ~~[1.08 times]~~ the amount of the operation and maintenance tax imposed by the district in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead in the district in that year, disregarding any homestead exemption available only to disabled persons or persons 65 years of age or older, multiplied by the sum of one and the inflation rate.

(e) In this section, "inflation rate" means the rate determined by the comptroller and published in the Texas Register as provided by Section 26.04(b-1), Tax Code.

No equivalent provision.

SECTION 17. The following provisions are repealed:

- (1) Section 1063.255, Special District Local Laws Code;
- (2) Section 26.07, Tax Code; and
- (3) Section 49.236, Water Code, as added by Chapter 248 (H.B. 1541), Acts of the 78th Legislature, Regular Session, 2003.

SECTION 18. The change in law made by this Act applies to the ad valorem tax rate of a taxing unit beginning with the **2016 tax year.**

No equivalent provision.

~~may require that~~ an election must be held to determine whether ~~[or not]~~ to ratify ~~[reduce]~~ the tax rate adopted for the current year ~~[to the rollback tax rate]~~ in accordance with the procedures provided by Sections 26.08(b)-(d) ~~[26.07(b)-(g) and 26.081]~~, Tax Code. For purposes of Sections 26.08(b)-(d) ~~[26.07(b)-(g)]~~ and this subsection, the rollback tax rate is the sum of the following tax rates:

- (1) the current year's debt service tax rate;
- (2) the current year's ~~[and]~~ contract tax rate;
and
- (3) ~~[rates plus]~~ the operation and maintenance tax rate that would impose 1.06 ~~[1.08]~~ times the amount of the operation and maintenance tax imposed by the district in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead in the district in that year, disregarding any homestead exemption available only to disabled persons or persons 65 years of age or older.

No equivalent provision.

(e) Notwithstanding any other provision of this section, the board may substitute "eight percent" for "six percent" in Subsection (a) and "1.08" for "1.06" in Subsection (d) if any part of the district is located in an area declared a disaster area during the current tax year by the governor or by the president of the United States.

SECTION 16. Same as introduced version.

SECTION 17. (a) The change in law made by this Act applies to the ad valorem tax rate of a taxing unit beginning with the **2015 tax year, except as provided by Subsection (b) of this section.**

(b) If the governing body of a taxing unit

adopted an ad valorem tax rate for the taxing unit for the 2015 tax year before the effective date of this Act, the change in law made by this Act applies to the ad valorem tax rate of that taxing unit beginning with the 2016 tax year, and the law in effect when the tax rate was adopted applies to the 2015 tax year with respect to that taxing unit.

SECTION 19. This Act takes effect January 1, 2016.

SECTION 18. This Act takes effect immediately if it receives a vote of two-thirds of all the members elected to each house, as provided by Section 39, Article III, Texas Constitution. If this Act does not receive the vote necessary for immediate effect, this Act takes effect on the 91st day after the last day of the legislative session.