

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATURE 1st CALLED SESSION - 2017

July 28, 2017

TO: Honorable Dennis Bonnen, Chair, House Committee on Ways & Means

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB4** by Bonnen, Dennis (relating to the calculation of the ad valorem rollback tax rate of a taxing unit and voter approval of a proposed tax rate that exceeds the rollback tax rate.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB4, Committee Report 1st House, Substituted: an impact of \$0 through the biennium ending August 31, 2019.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

Hypothetical Fiscal Impact of Lowering the Rollback Rate from 108 to 106 Percent of the Effective Maintenance and Operations Rate Plus the Current Debt Rate for Certain Taxing Units Other than Small Taxing Units:

The table below was provided by the Comptroller's office and is for illustrative purposes only. It addresses the bill's provision that for certain taxing units other than small taxing units would lower the rollback rate from 108 to 106 percent of the effective M&O rate, plus the current debt rate. The fiscal effects of this provision cannot be estimated; however, the table below is a hypothetical example of potential costs of the bill counties, cities, and special districts assuming:

- no proposed tax rate in excess of the reduced rollback rate proposed by the bill would be adopted;
- future taxing unit rate setting practices would be similar to the rate setting practices demonstrated in the available historical tax rate data; and
- the tax rate data, which is not available for all taxing units, is representative of all taxing units and is accurate.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2018	\$0
2019	\$0
2020	\$0
2021	\$0
2022	\$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain/(Loss) from Counties	Probable Revenue Gain/(Loss) from Cities	Probable Revenue Gain/(Loss) from Other Special Districts
2018	\$0	\$0	\$0
2019	(\$64,602,000)	(\$55,545,000)	(\$61,689,000)
2020	(\$67,832,000)	(\$58,323,000)	(\$64,774,000)
2021	(\$71,223,000)	(\$61,239,000)	(\$68,013,000)
2022	(\$74,784,000)	(\$64,301,000)	(\$71,413,000)

Fiscal Analysis

The bill would amend Chapter 26 of the Tax Code, regarding property taxation and assessment, to define a "small taxing unit" as a taxing unit, other than a school district, for which the maintenance and operations tax rate proposed for the current tax year is two cents or less per \$100 of taxable value, or would impose taxes of \$25 million or less when applied to the current total value for the taxing unit, or is a junior college district. For a small taxing unit, the percentage by which the effective maintenance and operations tax rate is increased in the rollback tax rate calculation would remain at 8 percent while for other taxing units the percentage would be reduced to 6 percent. A separate rollback rate calculation for school districts was not amended by the bill.

A taxing unit other than a small taxing unit would be permitted to direct the designated officer or employee to calculate the rollback tax rate of the unit in the manner provided for a small taxing unit if any part of the 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. The designated officer or employee at the direction of the governing body may continue calculating the rollback tax rate in the manner provided for small taxing units until the earlier of the first tax year in which the total taxable value of property taxable by the taxing unit exceeds the total taxable value of property taxable by the taxing unit on January 1 of the tax year in which the disaster occurred, or the third tax year after the tax year in which the disaster occurred.

Water districts have separate calculations and the bill applies the 8 percent rollback increment to water districts that are small taxing units, the 6 percent rollback increment to water districts that are not small taxing units, and sets forth the same disaster provision for water districts.

Except for certain specified districts, taxing units other than small taxing units would be required to hold an automatic election to approve a tax rate that exceeds the rollback rate except in the event of a disaster as specified. Small taxing units (including water districts that are small taxing units) would have a petition process that could trigger a rollback election.

The bill would amend Section 140.010 of the Local Government Code to provide that the currently prescribed proposed property tax rate notice for when the proposed tax rate exceeds the lower of the effective or rollback tax rate applies to a city or county that is a small taxing unit and sets forth language for this notice for a city or county that is not a small taxing unit. The bill would amend Section 49.236 of the Water Code to modify the content of the notice of the public hearing on the proposed tax rate and set forth provisions related to the petition process for water districts that are small taxing units and the rollback election for water districts that are not small taxing units.

The bill would make conforming changes elsewhere in the Tax Code, and in the Education Code, Health and Safety Code, and Special District Local Laws Code.

The bill would take effect on January 1, 2018.

Methodology

The bill's provision that (for certain taxing units other than small taxing units) would reduce the increment in the effective maintenance and operations (M&O) tax rate used in the rollback tax rate calculation from 8 percent to 6 percent could create a cost to these taxing units by making it more difficult to increase M&O tax rates by more than 106 percent of the effective M&O rate. If these taxing units propose a tax rate higher than the rollback rate, the automatic tax rate election might result in reducing the proposed rate to 106 percent of the effective M&O rate plus the current debt rate. Future proposed tax rates and the outcome of any elections cannot be predicted and the cost of the proposed provisions to units of local government cannot be estimated. There would be no cost to specified small taxing units, school districts or to the state through the school funding formula.

Local Government Impact

The table above titled "Hypothetical Fiscal Impact of Lowering the Rollback Rate from 108 to 106 Percent of the Effective Maintenance and Operations Rate Plus the Current Debt Rate for Certain Taxing Units Other than Small Taxing Units" was provided by the Comptroller's office and is for illustrative purposes only. It addresses the bill's provision that for certain taxing units other than small taxing units would lower the rollback rate from 108 to 106 percent of the effective M&O rate, plus the current debt rate. The fiscal effects of this provision cannot be estimated; however, the table above is a hypothetical example of potential costs of the bill counties, cities, and special districts assuming:

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Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD, SJS