

LEGISLATIVE BUDGET BOARD
Austin, Texas

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

August 2, 2017

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB82 by Darby (Relating to the abolition of school district maintenance and operations ad valorem taxes.), **As Introduced**

The estimated fiscal implication associated with implementing this bill and HJR 21 are shown on the fiscal note to HJR 21.

The bill states that it is the intent of the legislature to abolish school district maintenance and operations ad valorem taxes and to create a more equitable means of meeting the state's constitutional duty to make suitable provision for the support and maintenance of an efficient system of public free schools.

The bill would repeal Section 45.002 of the Education Code, which provides school districts the authority to levy, assess, and collect annual ad valorem taxes for the maintenance and operations of public schools in the district. The repeal of Section 45.002 of the Education Code would take effect January 1, 2020, but only if a related constitutional amendment is approved by the voters.

Together with HJR 21, prohibiting a political subdivision of this state from levying an ad valorem tax for the purpose of maintaining an efficient system of public free schools beginning on January 1, 2020, this bill would increase state costs to the Foundation School Program. For the purposes of the fiscal note, the costs related to implementing this bill and HJR 21 are shown on the fiscal note to HJR 21.

Eliminating local school district maintenance and operations (M&O) property taxes, and effectively making the maintenance and operations of school districts completely funded by the state would have a significant fiscal impact, both in terms of total entitlement generated by school districts and charter schools under the Foundation School Program, and in terms of the total amount of state aid which would be required under the provisions of the bill.

For the purpose of this analysis, and assuming no further statutory change affecting the funding formulas, the following effects to the Foundation School Program were assumed to result from eliminating local school district M&O property taxes: 1) the effective elimination of the Tier 1 local share as governed by Section 42.252 of the Education Code; 2) the effective elimination of recapture revenue and the effect of all wealth equalization provisions of Chapter 41 of the Education Code; 3) the effective elimination of Tier 1 basic allotment proration for districts with compressed rates less than the maximum compressed rate as governed by 42.101(a), Education Code; 4) the effective elimination of the Guaranteed Yield Program, governed by Chapter 42, Subchapter F of the Education Code, also commonly referred to as the Enrichment Tier or Tier II; and 5) the effective elimination of Additional State Aid for Homestead Exemption and Limitation

on Tax Increases, as governed by Section 42.2518 of the Education Code.

Based on an analysis of the Foundation School Program model, the anticipated cost to the state of eliminating local M&O property tax revenue would be \$23.3 billion in fiscal year 2021 and \$24.6 billion in fiscal year 2022. As noted, these costs are shown in the fiscal note for HJR 21.

Local Government Impact

Assuming no further statutory change affecting the school finance funding formulas, the effective elimination of the Guaranteed Yield Program, also referred to as the Enrichment Tier or Tier II, would result in the majority of districts and charter schools experiencing a reduction in overall M&O entitlement under the Foundation School Program.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, AM, AH, AG