

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

February 22, 2019

TO: Honorable Dustin Burrows, Chair, House Committee on Ways & Means

FROM: John McGeady, Assistant Director Sarah Keyton, Assistant Director
Legislative Budget Board

IN RE: HB2 by Burrows (Relating to ad valorem taxation.), **As Introduced**

The bill's provision that reduces the revenue growth increment used for determination of the rollback tax rate from 8.0 percent to 2.5 percent for taxing units other than small taxing units would result in reduced tax revenues for school districts and increased costs to the state through operation of the school funding formulas.

The bill's prescribed method for calculating the school district no-new-revenue tax rate (a key component in the rollback tax rate) requires corresponding amendments to the Education Code which are not identified in the bill. Consequently, the cost to school districts and to the state cannot be estimated.

The bill would amend several chapters of the Tax Code regarding general property tax provisions.

Provisions Affecting the Rollback Tax Rate

The bill would amend Chapter 26 of the Tax Code, regarding property taxation and assessment, to re-name the effective tax rate as the "no-new-revenue tax rate" and the effective maintenance and operations tax rate as the "no-new-revenue maintenance and operations tax rate". The designated officer or employee of a taxing unit would be required to use the tax rate calculation forms prescribed by the Comptroller in calculating the no-new-revenue tax rate and the rollback tax rate. The designated officer or employee of taxing units other than school districts or certain water districts would not be permitted to submit these rates to the governing body of the taxing unit and the unit would not be permitted to adopt a tax rate until the designated officer or employee certifies on the tax rate calculation forms that the tax rate calculations are accurate and the values are the same as the values shown in the unit's certified appraisal roll.

The bill would define a "small taxing unit" as a taxing unit, other than a school district, for which the sum of the total amount of property taxes that would be imposed for the current tax year if the tax rate proposed for that tax year were applied to the current total value for the taxing unit and the total amount of sales and use tax revenue received by the taxing unit, if any, for the last preceding four quarters for which that information is available is \$15 million or less.

For a small taxing unit the percentage by which the no-new-revenue 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 2.5 percent. 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 bill would provide a deadline after which a taxing unit affected by a disaster would revert to the previous calculation method.

School districts that adopt a tax rate above the rollback rate must hold an election to approve the adopted rate. The bill would amend the rollback tax rate calculation for school districts to the no-new-revenue maintenance and operations (M&O) rate plus 2.5 percent growth plus the debt tax rate. Unlike other taxing units, the school district no-new-revenue M&O tax rate is the M&O tax rate that would provide a certain amount of state funding plus the local taxes from the preceding year. The state funding, however, would be an amount from the previous year that would be received under the current year's funding formulas.

The bill would repeal Section 26.07 of the Tax Code which provides taxpayers a process to petition for a rollback election for taxing units other than school districts. Instead, taxing units would be subject to a rollback election under Section 26.08 of the Tax Code and water districts would be subject to a rollback election under Section 49.236 of the Water Code.

As soon as practicable after the designated officer or employee calculates the equivalent tax rate and the rollback tax rate of the taxing unit, the designated officer or employee would be required to submit the worksheets used in calculating the rates to the county assessor-collector for each county in which all or part of the territory of the unit is located.

Provisions Affecting Property Tax System Administration

The Comptroller would be required to prescribe tax rate calculation forms to be used by the designated officer or employee of each:

- taxing unit other than a school district to calculate and submit the no-new-revenue tax rate and the rollback tax rate for the unit; and
- school district to calculate and submit the no-new-revenue tax rate, the rollback tax rate, and the rate to maintain the same amount of state and local revenue per weighted student that the district received in the school year beginning in the preceding tax year.

The forms would be required to be in a fillable electronic format and capable of being certified as accurately calculating the applicable tax rates using certified appraisal roll values. The Comptroller would be required to prescribe the forms as soon as practicable after January 1, 2020. The bill would make other specifications regarding the forms. The Comptroller would be required to use the forms published on the Comptroller's Internet website as of January 1, 2019, modified as necessary to comply with the new requirements. The bill would provide for the forms to be updated as necessary to reflect changes in values and to make non-substantive changes at the Comptroller's discretion. The Comptroller would be permitted to revise the forms to reflect certain statutory changes, non-substantive changes, or on receipt of a request in writing if approved by the agreement of a majority of the members of a committee selected by the Comptroller. The bill would specify the makeup of the committee. The bill would provide for mediation regarding a revision if required.

The Comptroller would be required to include school district tax rates in the list of tax rates imposed by each taxing unit in this state as reported by each appraisal district, and to use the tax rates for the year in which the list is prepared (rather than for the preceding year). The Comptroller would be required to prescribe the manner in which appraisal districts submit the list and the deadline for the list, to list the tax rates according to specified criteria, and to publish the list on the Comptroller's Internet website not later than January 1 of the following year. The

Comptroller would be required to comply with this provision not later than January 1, 2021.

The Comptroller would be required to review and issue findings regarding appraisal district compliance with standards, procedures, and methodology prescribed by Comptroller appraisal manuals in addition to existing review requirements. The bill would make conforming changes regarding appraisal manuals.

The bill would repeal Subsections 5.103(e) and (f) of the Tax Code, regarding an appraisal review board survey, and replace them with more specific provisions requiring the Comptroller to prepare a survey form that allows a property owner or the owner's designated agent who files an appraisal roll correction motion or a protest, or a representative of the appraisal district in which the motion or protest is filed, to submit comments and suggestions regarding any matter addressed in the Comptroller's model appraisal review board hearing procedures or any other matter related to the fairness or efficiency of the appraisal review board. An appraisal district would be required to provide the survey to each property owner or designated agent at or before each hearing. Persons choosing to submit the survey form would be required to submit it to the Comptroller. The Comptroller would be required to allow submission of the survey form in person, by mail, by electronic mail, or through a web page on the Comptroller's Internet website. The bill would make other provisions and requirements regarding the completion and deadline for the survey form. The Comptroller would be required to issue an annual report summarizing the survey results, and to make the survey form and instructions available as soon as practicable after the bill's effective date, and would be permitted to adopt rules regarding the appraisal review board surveys.

Taxpayer notices containing specified tax bill information would be required by specified deadlines. The bill would revise requirements for certain public tax rate hearings and for related notices.

A person who owns taxable property would be entitled to an injunction prohibiting the taxing unit in which the property is taxable from adopting a tax rate if the assessor or designated officer or employee of the unit, the tax notice officer of the applicable appraisal district, or the taxing unit, as applicable, has not complied with certain computation, publication, posting or other requirements (rather than has not complied and the failure to comply was not in good faith). It would be a defense in an action for an injunction if the failure to comply was in good faith.

The bill would adjust certain deadlines, and make clarifying or conforming repeals and amendments in the Tax Code and various other codes.

Fiscal Analysis

The bill's provision that reduces the revenue growth increment used for determination of the rollback tax rate from 8.0 percent to 2.5 percent for taxing units other than small taxing units would result in reduced tax revenues for local taxing units, and increased costs to the state through operation of the school funding formulas.

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Comptroller's Administrative Costs

The Comptroller's office reports that administrative costs to implement provisions of the bill

would total \$225,000 per year starting in fiscal year 2020. The administrative cost estimate reflects the funds that would be necessary to hire three program specialists IIIs to support the appraisal review board survey provisions and the truth-in-taxation provisions.

The bill requires the Comptroller to allow property owners, agents, or appraisal district employees who attend appraisal review board hearings to submit a survey by hardcopy or email. Currently, the Comptroller's office only accepts surveys that are electronically submitted in such a way that the data may be automatically compiled. In 2018, 13,466 individuals who attended appraisal review board hearings electronically submitted surveys. While not every survey will be submitted by hardcopy under this bill, the number of handwritten surveys will significantly increase. Hand entry and processing of surveys will require 2 FTEs.

The bill also requires the Comptroller's office to prescribe tax rate calculations forms for use by all taxing units. One additional program specialist is needed to manage the forms and provide customer service and technical support to thousands of taxing units who will be using the forms.

Local Government Impact

The bill's provision that reduces the revenue growth increment used for determination of the rollback tax rate from 8.0 percent to 2.5 percent for taxing units other than small taxing units would result in reduced tax revenues for local taxing units.

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The Comptroller applied tax rate and levy information from appraisal districts to estimate reduced tax revenues for cities, counties, and special taxing units in the table below. The estimates assume that no tax rates above the reduced rollback tax rates would be proposed or approved by voters, reductions in revenue were estimated by comparing forecast property tax revenues extrapolated in line with the outlook for growth in appraised values to forecast revenues as constrained by the reduced rollback rates provided by the bill.

Fiscal Year	Possible Revenue Gain/ (Loss) from Counties	Possible Revenue Gain/ (Loss) from Cities	Possible Revenue Gain/ (Loss) from Other Special Districts
2020	\$ 0	\$ 0	\$ 0
2021	\$ (342,213,000)	\$ (394,030,000)	\$ (160,947,000)
2022	\$ (580,058,000)	\$ (633,491,000)	\$ (280,896,000)
2023	\$ (812,023,000)	\$ (867,169,000)	\$ (397,849,000)
2024	\$ (1,142,426,000)	\$ (1,199,740,000)	\$ (564,496,000)

Source Agencies: 304 Comptroller of Public Accounts, 701 Texas Education Agency
LBB Staff: WP, KK, SD, SJS