

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION
Revision 1

April 18, 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: SB2 by Bettencourt (Relating to ad valorem taxation.), As Engrossed

The bill's provision that revises the calculation of allowable maintenance and operations tax rates for school districts may result in reduced tax revenues for school districts and impact costs to the state through the operation of the school funding formulas.

The bill's provision that prohibits an appraisal review board from determining the appraised value of a protested property to be an amount greater than the appraised value of the property as shown in the appraisal records would result in reduced tax revenues for school districts and increased costs to the state through operation of the school funding formulas.

Additionally, the Comptroller's office reports that administrative costs to implement provisions of the bill would total (\$1,241,000) per year starting in fiscal year 2020 and require 18 FTEs.

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," the effective maintenance and operations tax rate as the "no-new-revenue maintenance and operations tax rate," and the rollback rate as the "voter-approved tax rate."

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.

The bill provides that on the uniform election date prescribed by the Election Code in May of 2020, each taxing unit that would have been a small taxing unit in the 2019 tax year if this bill had been in effect for that tax year would be required to call an election for the purpose of allowing the voters in the taxing unit to determine whether the law governing a taxing unit other than a small taxing unit shall apply to the taxing unit. If a majority of the votes cast favor the proposition, the taxing unit is considered to be a taxing unit other than a small taxing unit. The bill

would make other provisions for the election.

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 (except school districts) the percentage would be reduced to 3.5 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.

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 have been received under the current year's funding formulas.

The bill would allow counties to increase the no-new-revenue maintenance and operations rate by the growth in criminal defense expenditures if a county's indigent criminal defense expenditures exceed the amount of those expenditures for the preceding year.

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 no-new-revenue tax rate and voter-approved tax 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 voter-approved tax rate for the unit; and
- school district to calculate and submit the no-new-revenue tax rate, the voter-approved 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 bill would require the Comptroller to review and verify the values and tax rates for all types of taxing units and prepare a biennial report so that the information provided to Comptroller is presented in a consistent manner.

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 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.

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 would prohibit an appraisal review board from determining the appraised value of a protested property to be an amount greater than the appraised value of the property as shown in the appraisal records could create a cost to local taxing units and to the state through the school funding formulas. Currently, an appraisal review board may increase, decrease or make no change to a property's appraised value. Because information regarding properties for which the value is increased by an appraisal review board is unknown, the cost cannot be estimated.

The bill's provision that revises the calculation of allowable maintenance and operations tax rates for school districts may result in reduced tax revenues for school districts and impact costs to the state through the 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 voter-approved tax rate) requires school finance formula information that is unavailable. Consequently, the cost to school districts and to the state cannot be estimated.

Comptroller's Administrative Costs

The Comptroller's office reports that administrative costs to implement provisions of the bill would total \$1,241,000 per year starting in fiscal year 2020.

The administrative cost estimate reflects the funds necessary to hire 12 accounts examiner IIIs and 6 program specialist IVs to support the appraisal review board survey and the truth-in-taxation provisions and to review and verify property tax data from approximately 2000 special districts as well as provide verification of property tax data from 3004 cities, counties, and school districts.

Currently, the Property Tax Assistance Division (PTAD) reviews school district property tax information in detail for school funding purposes under the Property Value Study. PTAD also reviews to a lesser extent city and county property tax data. This information is used for the biennial report. While the Comptroller compiles special district information, this data is not reviewed or required to be reported in the biennial report. If the current review of school districts, counties, and cities were increased to the level necessary for verification and special districts reviewed to the level of verification, the Comptroller will need 12 Account Examiner IIIs and 3 Program Specialist IVs.

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 would prohibit an appraisal review board from determining the appraised value of a protested property to be an amount greater than the appraised value of the property as shown in the appraisal records could create a cost to local taxing units. Currently, an appraisal review board may increase, decrease or make no change to a property's appraised value. Because information regarding properties for which the value is increased by an appraisal review board is unknown, the cost cannot be estimated.

The bill's provision that revises the calculation of allowable maintenance and operations tax rates for school districts may result in reduced tax revenues for school districts and impact costs to the state through the operation of the school funding formulas.

The bill's provision that reduces the revenue growth increment used for determination of the voter-approved tax rate from 8 percent to 3.5 percent for taxing units other than school districts and small taxing units (unless the voters in a small taxing unit election decide to opt-in to the proposed new voter-approved tax rate procedure) would result in reduced tax revenues for local taxing units.

Tax rate and levy information from appraisal districts was used to estimate reduced tax revenues for cities, counties, and special taxing units. On the assumption that no proposed tax rates above the reduced voter-approved tax rates would be 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 voter-approved tax rates provided by the bill.

Note that the table is for illustrative purposes only and is based on the assumption that no tax rate would be adopted that is above the voter-approved tax rate. It was also assumed that one-half of small taxing units would opt-in to the proposed new voter-approved tax rate procedure and the tax levy losses of these taxing units are included in the table. There would be no cost to small taxing units that do not opt-in. The actual costs cannot be estimated because the results of any future elections to approve a proposed tax rate are unknown.

Fiscal Year	Possible Revenue Gain/ (Loss) from Counties	Possible Revenue Gain/ (Loss) from Cities	Possible Revenue Gain/ (Loss) from Special Districts
2020	\$ 0	\$ 0	\$ 0
2021	\$ (293,418,000)	\$ (346,720,000)	\$ (149,729,000)
2022	\$ (507,144,000)	\$ (567,518,000)	\$ (277,994,000)
2023	\$ (695,552,000)	\$ (760,270,000)	\$ (392,208,000)
2024	\$ (967,934,000)	\$ (1,036,889,000)	\$ (558,562,000)

Source Agencies: 304 Comptroller of Public Accounts, 701 Texas Education Agency

LBB Staff: WP, KK, SD, SJS