

## **BILL ANALYSIS**

Senate Research Center

S.B. 12  
By: Bettencourt; Kolkhorst  
Local Government  
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Enrolled

### **AUTHOR'S / SPONSOR'S STATEMENT OF INTENT**

The 86th Legislature passed H.B. 3, the school finance reform bill. H.B. 3 provided school maintenance and operations (M&O) tax rate compression for property taxpayers, where the state provides additional dollars to school districts in return for lower local school tax rates. One group of Texans did not receive this reduction, those with an Over 65/Disabled exemption.

A similar scenario happened in 2005, when school M&O tax rates were compressed by the state. After the bill passed it was discovered that those with an Over 65/Disabled exemption would not see any tax rate reduction. In 2007, the legislature approved a joint resolution to be voted on by the citizens that would permit compression to be applied to those with this type of exemption. The constitutional amendment passed with an overwhelming 815,596 to 113,983.

S.J.R. 4 and S.B. 12 would put to the voters again the option to extend the tax rates compression from H.B. 3 to those who have an Over 65/Disabled exemption, so that they too would see their school M&O tax rate reduced. These two measures are based on the precedents from 2005 and 2007.

S.J.R. 4 and S.B. 12 seek to provide school M&O tax rate compression to individual homeowners who have an Over 65/Disabled exemption.

S.B. 12 amends current law relating to the reduction of the amount of a limitation on the total amount of ad valorem taxes that may be imposed by a school district on the residence homestead of an individual who is elderly or disabled to reflect any reduction from the preceding tax year in the district's maximum compressed rate and to the protection of school districts against the resulting loss in local revenue.

### **RULEMAKING AUTHORITY**

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

### **SECTION BY SECTION ANALYSIS**

SECTION 1. Amends Section 11.26, Tax Code, by adding Subsections (a-4), (a-5), (a-6), (a-7), (a-8), (a-9), and (a-10), as follows:

(a-4) Defines "maximum compressed rate" for Section 11.26 (Limitation of School Tax on Homesteads of Elderly or Disabled).

(a-5) Provides that notwithstanding the other provisions of this section, if in the 2023 tax year an individual qualifies for a limitation on tax increases provided by this section on the individual's residence homestead and the first tax year the individual or the individual's spouse qualified for an exemption under Section 11.13(c) (relating to an entitlement to an additional \$10,000 exemption from taxation by a school district on the appraised value of a residence homestead of an adult who is disabled or is 65 or older) for the same homestead was a tax year before the 2019 tax year, the amount of the limitation provided by this section on the homestead in the 2023 tax year is equal to the amount computed by:

- (1) multiplying the taxable value of the homestead in the 2018 tax year by a tax rate equal to the difference between the school district's tier one maintenance and operations rate for the 2018 tax year and the district's maximum compressed rate for the 2019 tax year;
- (2) subtracting the greater of zero or the amount computed under Subdivision (1) from the amount of tax the district imposed on the homestead in the 2018 tax year;
- (3) adding any tax imposed in the 2019 tax year attributable to improvements made in the 2018 tax year as provided by Subsection (b) (relating to authorizing a school district to increase the tax on a homestead because of enhanced value attributable to certain improvements) to the amount computed under Subdivision (2);
- (4) multiplying the taxable value of the homestead in the 2019 tax year by a tax rate equal to the difference between the district's maximum compressed rate for the 2019 tax year and the district's maximum compressed rate for the 2020 tax year;
- (5) subtracting the amount computed under Subdivision (4) from the amount computed under Subdivision (3);
- (6) adding any tax imposed in the 2020 tax year attributable to improvements made in the 2019 tax year as provided by Subsection (b) to the amount computed under Subdivision (5);
- (7) multiplying the taxable value of the homestead in the 2020 tax year by a tax rate equal to the difference between the district's maximum compressed rate for the 2020 tax year and the district's maximum compressed rate for the 2021 tax year;
- (8) subtracting the amount computed under Subdivision (7) from the amount computed under Subdivision (6);
- (9) adding any tax imposed in the 2021 tax year attributable to improvements made in the 2020 tax year as provided by Subsection (b) to the amount computed under Subdivision (8);
- (10) multiplying the taxable value of the homestead in the 2021 tax year by a tax rate equal to the difference between the district's maximum compressed rate for the 2021 tax year and the district's maximum compressed rate for the 2022 tax year;
- (11) subtracting the amount computed under Subdivision (10) from the amount computed under Subdivision (9);
- (12) adding any tax imposed in the 2022 tax year attributable to improvements made in the 2021 tax year as provided by Subsection (b) to the amount computed under Subdivision (11);
- (13) multiplying the taxable value of the homestead in the 2022 tax year by a tax rate equal to the difference between the district's maximum compressed rate for the 2022 tax year and the district's maximum compressed rate for the 2023 tax year;
- (14) subtracting the amount computed under Subdivision (13) from the amount computed under Subdivision (12); and

(15) adding any tax imposed in the 2023 tax year attributable to improvements made in the 2022 tax year as provided by Subsection (b) to the amount computed under Subdivision (14).

(a-6) Provides that notwithstanding the other provisions of this section, if in the 2023 tax year an individual qualifies for a limitation on tax increases provided by this section on the individual's residence homestead and the first tax year the individual or the individual's spouse qualified for an exemption under Section 11.13(c) for the same homestead was the 2019 tax year, the amount of the limitation provided by this section on the homestead in the 2023 tax year is equal to the amount computed by:

(1) multiplying the taxable value of the homestead in the 2019 tax year by a tax rate equal to the difference between the school district's maximum compressed rate for the 2019 tax year and the district's maximum compressed rate for the 2020 tax year;

(2) subtracting the amount computed under Subdivision (1) from the amount of tax the district imposed on the homestead in the 2019 tax year;

(3) adding any tax imposed in the 2020 tax year attributable to improvements made in the 2019 tax year as provided by Subsection (b) to the amount computed under Subdivision (2);

(4) multiplying the taxable value of the homestead in the 2020 tax year by a tax rate equal to the difference between the district's maximum compressed rate for the 2020 tax year and the district's maximum compressed rate for the 2021 tax year;

(5) subtracting the amount computed under Subdivision (4) from the amount computed under Subdivision (3);

(6) adding any tax imposed in the 2021 tax year attributable to improvements made in the 2020 tax year as provided by Subsection (b) to the amount computed under Subdivision (5);

(7) multiplying the taxable value of the homestead in the 2021 tax year by a tax rate equal to the difference between the district's maximum compressed rate for the 2021 tax year and the district's maximum compressed rate for the 2022 tax year;

(8) subtracting the amount computed under Subdivision (7) from the amount computed under Subdivision (6);

(9) adding any tax imposed in the 2022 tax year attributable to improvements made in the 2021 tax year as provided by Subsection (b) to the amount computed under Subdivision (8);

(10) multiplying the taxable value of the homestead in the 2022 tax year by a tax rate equal to the difference between the district's maximum compressed rate for the 2022 tax year and the district's maximum compressed rate for the 2023 tax year;

(11) subtracting the amount computed under Subdivision (10) from the amount computed under Subdivision (9); and

(12) adding any tax imposed in the 2023 tax year attributable to improvements made in the 2022 tax year as provided by Subsection (b) to the amount computed under Subdivision (11).

(a-7) Provides that notwithstanding the other provisions of this section, if in the 2023 tax year an individual qualifies for a limitation on tax increases provided by this section on the individual's residence homestead and the first tax year the individual or the individual's spouse qualified for an exemption under Section 11.13(c) for the same homestead was the 2020 tax year, the amount of the limitation provided by this section on the homestead in the 2023 tax year is equal to the amount computed by:

(1) multiplying the taxable value of the homestead in the 2020 tax year by a tax rate equal to the difference between the school district's maximum compressed rate for the 2020 tax year and the district's maximum compressed rate for the 2021 tax year;

(2) subtracting the amount computed under Subdivision (1) from the amount of tax the district imposed on the homestead in the 2020 tax year;

(3) adding any tax imposed in the 2021 tax year attributable to improvements made in the 2020 tax year as provided by Subsection (b) to the amount computed under Subdivision (2);

(4) multiplying the taxable value of the homestead in the 2021 tax year by a tax rate equal to the difference between the district's maximum compressed rate for the 2021 tax year and the district's maximum compressed rate for the 2022 tax year;

(5) subtracting the amount computed under Subdivision (4) from the amount computed under Subdivision (3);

(6) adding any tax imposed in the 2022 tax year attributable to improvements made in the 2021 tax year as provided by Subsection (b) to the amount computed under Subdivision (5);

(7) multiplying the taxable value of the homestead in the 2022 tax year by a tax rate equal to the difference between the district's maximum compressed rate for the 2022 tax year and the district's maximum compressed rate for the 2023 tax year;

(8) subtracting the amount computed under Subdivision (7) from the amount computed under Subdivision (6); and

(9) adding any tax imposed in the 2023 tax year attributable to improvements made in the 2022 tax year as provided by Subsection (b) to the amount computed under Subdivision (8).

(a-8) Provides that notwithstanding the other provisions of this section, if in the 2023 tax year an individual qualifies for a limitation on tax increases provided by this section on the individual's residence homestead and the first tax year the individual or the individual's spouse qualified for an exemption under Section 11.13(c) for the same homestead was the 2021 tax year, the amount of the limitation provided by this section on the homestead in the 2023 tax year is equal to the amount computed by:

(1) multiplying the taxable value of the homestead in the 2021 tax year by a tax rate equal to the difference between the school district's maximum compressed rate for the 2021 tax year and the district's maximum compressed rate for the 2022 tax year;

(2) subtracting the amount computed under Subdivision (1) from the amount of tax the district imposed on the homestead in the 2021 tax year;

(3) adding any tax imposed in the 2022 tax year attributable to improvements made in the 2021 tax year as provided by Subsection (b) to the amount computed under Subdivision (2);

(4) multiplying the taxable value of the homestead in the 2022 tax year by a tax rate equal to the difference between the school district's maximum compressed rate for the 2022 tax year and the district's maximum compressed rate for the 2023 tax year;

(5) subtracting the amount computed under Subdivision (4) from the amount computed under Subdivision (3); and

(6) adding any tax imposed in the 2023 tax year attributable to improvements made in the 2022 tax year as provided by Subsection (b) to the amount computed under Subdivision (5).

(a-9) Provides that notwithstanding the other provisions of this section, if in the 2023 tax year an individual qualifies for a limitation on tax increases provided by this section on the individual's residence homestead and the first tax year the individual or the individual's spouse qualified for an exemption under Section 11.13(c) for the same homestead was the 2022 tax year, the amount of the limitation provided by this section on the homestead in the 2023 tax year is equal to the amount computed by:

(1) multiplying the taxable value of the homestead in the 2022 tax year by a tax rate equal to the difference between the school district's maximum compressed rate for the 2022 tax year and the district's maximum compressed rate for the 2023 tax year;

(2) subtracting the amount computed under Subdivision (1) from the amount of tax the district imposed on the homestead in the 2022 tax year; and

(3) adding any tax imposed in the 2023 tax year attributable to improvements made in the 2022 tax year as provided by Subsection (b) to the amount computed under Subdivision (2).

(a-10) Provides that notwithstanding the other provisions of this section, if in the 2024 or a subsequent tax year an individual qualifies for a limitation on tax increases provided by this section on the individual's residence homestead, the amount of the limitation provided by this section on the homestead is equal to the amount computed by:

(1) multiplying the taxable value of the homestead in the preceding tax year by a tax rate equal to the difference between the school district's maximum compressed rate for the preceding tax year and the district's maximum compressed rate for the current tax year;

(2) subtracting the amount computed under Subdivision (1) from the amount of tax the district imposed on the homestead in the preceding tax year; and

(3) adding any tax imposed in the current tax year attributable to improvements made in the preceding tax year as provided by Subsection (b) to the amount computed under Subdivision (2).

SECTION 2. Amends Subchapter F, Chapter 48, Education Code, by adding Section 48.2542, as follows:

Sec. 48.2542. ADDITIONAL STATE AID FOR ADJUSTMENT OF LIMITATION ON TAX INCREASES ON HOMESTEAD OF ELDERLY OR DISABLED. Provides that notwithstanding any other provision of Chapter 48 (Foundation School Program), if a school district is not fully compensated through state aid or the calculation of excess local revenue under this chapter based on the determination of the district's taxable value of

property under Subchapter M (Study of School District Property Values), Chapter 403 (Comptroller of Public Accounts), Government Code, the district is entitled to additional state aid in the amount necessary to fully compensate the district for the amount of ad valorem tax revenue lost due to a reduction of the amount of the limitation on tax increases provided by Sections 11.26(a-4), (a-5), (a-6), (a-7), (a-8), (a-9), and (a-10), Tax Code, as applicable.

SECTION 3. Amends Section 48.2551(d), Education Code, as follows:

(d) Requires the Texas Education Agency (TEA) to, among other actions, post the information described by Section 48.2556 on TEA's Internet website as required by that section. Makes nonsubstantive changes.

SECTION 4. Amends Subchapter F, Chapter 48, Education Code, by adding Section 48.2556, as follows:

Sec. 48.2556. POSTING ON AGENCY WEBSITE OF INFORMATION RELATED TO REDUCTION OF LIMITATION OF TAX ON HOMESTEADS OF ELDERLY OR DISABLED. (a) Requires TEA to post the following information on TEA's Internet website for purposes of allowing the chief appraiser of each appraisal district and the assessor for each school district to make the calculations required by Sections 11.26(a-5), (a-6), (a-7), (a-8), (a-9), and (a-10), Tax Code:

(1) each school district's maximum compressed rate, as determined under Section 48.2551, for each tax year beginning with the 2019 tax year; and

(2) each school district's tier one maintenance and operations tax rate, as provided by Section 45.0032(a), for the 2018 tax year.

(b) Requires TEA to post each school district's maximum compressed rate for the current tax year, as determined under Section 48.2551, promptly after calculating the rate. Requires TEA, if, for the 2023 or a subsequent tax year, TEA calculates a preliminary rate before calculating a final rate, to post the preliminary rate, and requires the chief appraiser of each appraisal district and the assessor for each school district to use the preliminary rate to make the calculations described by Subsection (a).

(c) Requires TEA to notify the chief appraiser of each appraisal district and the assessor for each school district when the agency has complied with Subsection (b). Requires that the notice include the location on TEA's Internet website at which the information required by this section to be posted may be found.

SECTION 5. Amends Section 403.302, Government Code, by adding Subsection (j-1), as follows:

(j-1) Requires the Comptroller of Public Accounts of the State of Texas (comptroller), in the final certification of the study under Subsection (j) (relating to requiring the comptroller to certify the final taxable value for each school district, appropriately adjusted to give effect to certain provisions of the Education Code related to school funding, to the commissioner of education as provided by the terms of a memorandum of understanding entered into between the comptroller, the Legislative Budget Board, and the commissioner of education), to separately identify the final taxable value for each school district as adjusted to account for the reduction of the amount of the limitation on tax increases provided by Sections 11.26(a-4), (a-5), (a-6), (a-7), (a-8), (a-9), and (a-10), Tax Code, as applicable.

SECTION 6. Provides that this Act applies only to ad valorem taxes imposed for a tax year beginning on or after the effective date of this Act.

SECTION 7. Effective date: January 1, 2023, contingent upon approval by the voters of the constitutional amendment proposed by the 87th Legislature, 2nd Called Session, 2021, authorizing the legislature to provide for the reduction of the amount of a limitation on the total amount of ad valorem taxes that may be imposed for general elementary and secondary public school purposes on the residence homestead of a person who is elderly or disabled to reflect any statutory reduction from the preceding tax year in the maximum compressed rate of the maintenance and operations taxes imposed for those purposes on the homestead.