

BILL ANALYSIS

Senate Research Center

S.B. 1
By: Bettencourt
Finance
10/19/2021
Enrolled

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

S.B. 1 will provide additional school maintenance and operation (M&O) tax rate compression for the 2022-2023 school year of at least \$2 billion. Each billion dollars of compression lowers school M&O tax rates by 3.3 pennies. All property owners in Texas would see a reduction of their ISD tax rate by at least 6.6 pennies. The owner of a home with a taxable value of \$300,000 would save \$200 on their tax bill.

S.B. 1 directs the Comptroller of Public Accounts of the State of Texas to provide an updated revenue estimate by June 1, 2022. Based on that revised estimate, if there is a sufficient ending balance projected for Fiscal Year 2023 the amount of tax compression may be increased. The difference between the revenue estimate provided to the Texas Legislature in August 2021 and June 2022 will determine the amount of any additional compression dollars. The first \$500 million available will remain in general revenue. Any amount above \$500 million will be divided equally between general revenue and additional school M&O property tax rate compression. The maximum amount of available revenue used for additional compression is \$2 billion. In order to access the additional maximum \$2 billion for compression, in June 2022 the comptroller would have to certify a \$12.35 billion ending balance for Fiscal Year 2023 over the August 2021 estimate of \$7.85 billion.

S.B. 1 is identical to S.B. 91 from the Second Called Session, which passed unanimously out of the Senate Finance Committee and passed the senate 29-2.

S.B. 1 will reduce school M&O tax rates for all property owners in Texas, and state dollars will replace local dollars for the 2022-2023 school year. School districts will not have any reduction in formula funding due to S.B. 1 tax rate compression.

(Original Author's / Sponsor's Statement of Intent)

S.B. 1 amends current law relating to an increase in the amount of the exemption of residence homesteads from ad valorem taxation by a school district and the protection of school districts against the resulting loss in local revenue.

RULEMAKING AUTHORITY

Rulemaking authority is expressly granted to the Comptroller of Public Accounts of the State of Texas in SECTION 4 of this bill.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Section 11.13(b), Tax Code, as follows:

(b) Provides that an adult is entitled to exemption from taxation by a school district of \$40,000, rather than \$25,000, of the appraised value of the adult's residence homestead, except that only \$5,000 of the exemption applies to an entity operating under certain former chapters, as those chapters existed on May 1, 1995, as permitted by Section 11.301 (Application of Former Law), Education Code.

SECTION 2. Amends Section 46.071, Education Code, by amending Subsections (a), (b), and (c) and adding Subsections (a-1), (b-1), and (c-1), as follows:

(a) Provides that beginning with the 2015-2016 school year and continuing through the 2021-2022 school year, rather than beginning with the 2015-2016 school year, a school district is entitled to additional state aid under Subchapter D (State Aid for Homestead Exemption and Limitation on Tax Increases) to the extent that state and local revenue used to service debt eligible under Chapter 46 (Assistance With Instructional Facilities and Payment of Existing Debt) is less than the state and local revenue that would have been available to the district under this chapter as it existed on September 1, 2015, if the increase in the residence homestead exemption under Section 1-b(c) (relating to providing that the amount of \$25,000 of the market value of the residence homestead of a married or unmarried adult, including one living alone, is exempt from ad valorem taxation for general elementary and secondary public school purposes), Article VIII (Taxation and Revenue), Texas Constitution, and the additional limitation on tax increases under Section 1-b(d) (relating to prohibiting the total amount of ad valorem taxes imposed on that homestead for general elementary and secondary public school purposes, except as otherwise provided by this subsection, if a person receives a residence homestead exemption prescribed by Subsection (c) of this section for homesteads of persons who are 65 years of age or older or who are disabled, from being increased while it remains the residence homestead of that person or that person's spouse who receives the exemption) of that article as proposed by S.J.R. 1, 84th Legislature, Regular Session, 2015, had not occurred.

(a-1) Provides that beginning with the 2022-2023 school year, a school district is entitled to additional state aid under this subchapter to the extent that state and local revenue used to service debt eligible under this chapter is less than the state and local revenue that would have been available to the district under this chapter as it existed on September 1, 2021, if any increase in the residence homestead exemption under Section 1-b(c), Article VIII, Texas Constitution, as proposed by the 87th Legislature, 3rd Called Session, 2021, had not occurred.

(b) Provides that, subject to Subsections (c), (d), and (e), rather than Subsections (c)-(e), additional state aid under Section 46.071 (Additional State Aid for Homestead Exemption and Limitation on Tax Increases) through the 2021-2022 school year is equal to the amount by which the loss of local interest and sinking revenue for debt service attributable to the increase in the residence homestead exemption under Section 1-b(c), Article VIII, Texas Constitution, and the additional limitation on tax increases under Section 1-b(d) of that article as proposed by S.J.R. 1, 84th Legislature, Regular Session, 2015, is not offset by a gain in state aid under this chapter.

(b-1) Provides that, subject to Subsections (c-1), (d), and (e), additional state aid under this section beginning with the 2022-2023 school year is equal to the amount by which the loss of local interest and sinking revenue for debt service attributable to any increase in the residence homestead exemption under Section 1-b(c), Article VIII, Texas Constitution, as proposed by the 87th Legislature, 3rd Called Session, 2021, is not offset by a gain in state aid under this chapter.

(c) Provides that for the purpose of determining state aid under Subsections (a) and (b), rather than under this section, local interest and sinking revenue for debt service is limited to revenue required to service debt eligible under this chapter as of September 1, 2015, including refunding of that debt, subject to Section 46.061 (State Assistance for Refinancing).

(c-1) Provides that for the purpose of determining state aid under Subsections (a-1) and (b-1), local interest and sinking revenue for debt service is limited to revenue required to service debt eligible under this chapter as of September 1, 2021, including refunding of that debt, subject to Section 46.061. Provides that the limitation imposed by Section 46.034(a) (relating to prohibiting the existing debt tax rate for a school district from

exceeding \$0.29 per \$100 of valuation, or a greater amount for any year provided by appropriation) does not apply for the purpose of determining state aid under this section.

SECTION 3. Amends Subchapter F, Chapter 48, Education Code, by adding Section 48.2543, as follows:

Sec. 48.2543. ADDITIONAL STATE AID FOR HOMESTEAD EXEMPTION. (a) Provides that beginning with the 2022-2023 school year, a school district is entitled to additional state aid to the extent that state and local revenue under Chapter 48 (Foundation School Program) and Chapter 49 (Options for Local Revenue Levels in Excess of Entitlement) is less than the state and local revenue that would have been available to the district under this chapter and Chapter 49 as those chapters existed on September 1, 2021, if any increase in the residence homestead exemption under Section 1-b(c), Article VIII, Texas Constitution, as proposed by the 87th Legislature, 3rd Called Session, 2021, had not occurred.

(b) Provides that the lesser of the school district's currently adopted maintenance and operations tax rate or the adopted maintenance and operations tax rate for the 2021 tax year is used for the purpose of determining additional state aid under Subsection (a).

SECTION 4. Authorizes the Comptroller of Public Accounts of the State of Texas to adopt rules for the purpose of implementing and administering the changes in law made by this Act, including rules relating to the form of certain information required to be provided by tax officials and the date on which the information is required to be provided.

SECTION 5. Provides that Section 11.13, Tax Code, as amended by this Act, applies beginning with the 2022 tax year.

SECTION 6. (a) Makes application of this Act, except as provided by Subsection (b) of this section, contingent upon approval by the voters of the constitutional amendment proposed by the 87th Legislature, 3rd Called Session, 2021, relating to increasing the amount of the residence homestead exemption from ad valorem taxation for public school purposes.

(b) Effective date, Section 4 of this Act: upon passage or the 91st day after the last day of the legislative session.