

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION**

**March 21, 2021**

**TO:** Honorable Morgan Meyer, Chair, House Committee on Ways & Means

**FROM:** Jerry McGinty, Director, Legislative Budget Board

**IN RE: HB1391** by Middleton (Relating to the effect of an election at which the voters fail to approve or vote to reduce the ad valorem tax rate adopted by the governing body of a taxing unit.), **As Introduced**

**Passage of the bill would provide that in a tax rate election where a majority of the voters reject the proposed tax rate, the tax rate is the lesser of the no-new-revenue tax rate or the voter-approval tax rate. Depending on a school district's tax base, taxing behavior, student make-up, and other factors there would be both costs and savings to the state through reduced recapture and reduced state aid. Therefore, the fiscal implication to the state cannot be estimated.**

The bill would amend Chapter 26 of the Tax Code, regarding property tax assessment, to provide that in a tax rate election where a majority of the voters reject the proposed tax rate, the tax rate is the lesser of the no-new-revenue tax rate or the voter-approval tax rate.

Current law provides that when a taxing unit adopts a tax rate above the voter-approval rate and voters reject the proposed tax rate in a tax rate election, the tax rate will be the voter-approval rate. This also applies to taxing units not required to hold an election to adopt a tax rate above the voter-approval tax rate, but whose qualified voters can petition to require one. Changing the prevailing tax rate to the lesser of the no-new-revenue tax rate or the voter-approval tax rate would be a cost to taxing units, other than school districts in instances when a proposed tax rate fails at an election and the no-new revenue rate is lower than the voter-approval rate.

Depending on a school district's tax base, taxing behavior, student make-up and other factors there would be both costs and savings to the state through reduced recapture and reduced state aid. Consequently, the associated impact to school districts and to the state cannot be estimated.

**Local Government Impact**

Current law provides that when a taxing unit adopts a tax rate above the voter-approval-rate and voters reject the proposed tax rate in a tax rate election, the tax rate will be the voter-approval rate. This also applies to taxing units not required to hold an election to adopt a tax rate above the voter-approval tax rate, but whose qualified voters can petition to require one. changing the prevailing tax rate to the lesser of the no-new-revenue tax rate or the voter-approval tax rate would be a cost to taxing units, other than school districts in instances when a proposed tax rate fails at an election and the no-new revenue rate is lower than the voter-approval rate.

**Note:** The table below is a hypothetical example of what the cost of the bill could be if future tax rates are similar to past trends and if voters never ratify rates above voter-approval tax rates. Future rate adoption decisions of taxing units, proposed tax rates, and the outcome of any elections are unknown; therefore, the cost of the proposed provisions to units of local government cannot be estimated.

The table below is a hypothetical example of potential costs of the bill to counties, cities, and special taxing units assuming no proposed tax rate in excess of the voter-approval tax rate would be ratified in an election; future no-new-revenue tax rates lower than voter-approval tax rates would be similar to the no-new-revenue tax rates and voter-approval tax rates demonstrated in the available historical tax rate data; and the tax rate data, which is not available for all taxing units, is representative of all taxing units and is accurate.

| <b>Fiscal Year</b> | <b>Possible Revenue Gain/ (Loss) from Counties</b> | <b>Possible Revenue Gain/ (Loss) from Cities</b> | <b>Possible Revenue Gain/ (Loss) from Special Districts</b> |
|--------------------|----------------------------------------------------|--------------------------------------------------|-------------------------------------------------------------|
| 2022               | \$ 0                                               | \$ 0                                             | \$ 0                                                        |
| 2023               | \$ (886,621,000)                                   | \$ (862,584,000)                                 | \$ (619,813,000)                                            |
| 2024               | \$ (917,652,000)                                   | \$ (892,774,000)                                 | \$ (647,704,000)                                            |
| 2025               | \$ (949,770,000)                                   | \$ (924,021,000)                                 | \$ (680,089,000)                                            |
| 2026               | \$ (978,263,000)                                   | \$ (951,742,000)                                 | \$ (714,094,000)                                            |

**Source Agencies:** 304 Comptroller of Public Accounts

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