

BILL ANALYSIS

C.S.S.B. 3
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Ways & Means
Committee Report (Substituted)

BACKGROUND AND PURPOSE

Local property taxes in Texas are rapidly rising and becoming increasingly unaffordable. According to data from the comptroller of public accounts, local property tax levies increased nearly 300 percent between 1998 and 2021.

Much of the headache for taxpayers with respect to property taxation is caused by the lack of stability and predictability in appraisals. Although Texas has an existing limitation on appraised-value increases, that limitation only applies to residence homesteads and allows for a 10 percent annual increase in the appraised value of those homesteads. Additionally, many Texans are concerned with the amount of school district recapture payments and the state's share of public education funding.

C.S.S.B. 3 seeks to address these issues and provide property tax relief by reducing the maximum compressed tax rate for all school districts, lowering the limitation on appraised value for residence homesteads and extending its applicability to all real property, increasing the amount of the general school district residence homestead exemption to \$100,000, and providing all property owners the option to request an escrow account from the collector for their taxing units.

CRIMINAL JUSTICE IMPACT

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

C.S.S.B. 3 amends the Education Code, Government Code, and Tax Code to enact the provisions of the Property Tax Relief Act.

School District Tax Rate Compression

C.S.S.B. 3 provides for a \$0.15 reduction in a public school district's maximum compressed tax rate for the 2023-2024 school year. If a district's maximum compressed tax rate after that reduction would be less than 90 percent of another district's maximum compressed tax rate, the district's maximum compressed tax rate is instead the value at which that rate would be equal to 90 percent of the other district's maximum compressed tax rate. The bill provides that, during the 2023-2024 school year, certain references in state law to a district's maximum compressed tax rate or maximum compressed rate mean the maximum compressed rate for the district as

reduced by the bill for the 2023-2024 school year. The bill establishes that, for purposes of determining a district's maximum compressed tax rate for the 2024-2025 school year, the value of the district's "PYMCR" is the maximum compressed tax rate determined for the district for the preceding school year. These provisions expire September 1, 2025.

C.S.S.B. 3, with respect to a school district that received an adjustment from the Texas Education Agency (TEA) for the 2022-2023 school year to the amount of the district's local revenue levels the district would otherwise be required to reduce in order to ensure that the district's tier one revenue level remains at entitlement level, entitles such a district to additional state aid for each school year in an amount equal to the amount of that adjustment for the 2022-2023 school year less the difference, if the difference is greater than zero, between:

- the amount to which the district is entitled under the Foundation School Program (FSP) for the current school year; and
- the amount to which the district would be entitled under the FSP for the current school year if the district's maximum compressed tax rate had not been reduced as part of the tax rate compression provided for by the bill.

School District Residence Homestead Exemption; Elderly and Disabled Property Tax Ceiling; Protection of School Districts Against Resulting Loss in Local Revenue

Increase in Amount of Residence Homestead Exemption

C.S.S.B. 3 increases the amount of the general school district residence homestead property tax exemption from \$40,000 to \$100,000. This increase applies beginning with the property tax year that begins January 1, 2023.

Elderly and Disabled Property Tax Ceiling

C.S.S.B. 3 revises the formula for calculating the ceiling on the school district taxes that may be imposed on the residence homestead of an elderly or disabled individual who first qualifies for the tax ceiling in the 2024 or a subsequent tax year by requiring an amount equal to the following to be subtracted from the sum calculated according to the existing formula: the amount of any increase in the current tax year as compared to the preceding tax year in the aggregate amount of the general residence homestead property tax exemption and the residence homestead exemption for elderly and disabled individuals multiplied by the district's tax rate for the current tax year.

C.S.S.B. 3 provides for an amount equal to the product of \$60,000 and the applicable school district tax rate for the 2023 tax year to be subtracted from the tax ceiling calculated for that tax year for an individual for whom the 2022 tax year or an earlier tax year was the first tax year the individual or the individual's spouse qualified for the residence homestead exemption for the elderly or disabled. If the individual or their spouse first qualified for that exemption for the 2021 tax year or an earlier tax year, the bill provides for an additional amount equal to the product of \$15,000 and the tax rate of the applicable school district for the 2022 tax year to be subtracted from the tax ceiling for the 2023 tax year. These provisions expire January 1, 2025.

These provisions apply beginning with the property tax year that begins January 1, 2023.

Posting of Information on TEA Website

C.S.S.B. 3 removes the requirement for TEA to post the following information on its website for purposes of allowing the chief appraiser of each appraisal district and the assessor for each school district to make the calculations required to determine the amount of the elderly and disabled tax ceiling:

- each district's maximum compressed rate for each tax year beginning with the 2019 tax year; and

- each district's tier one maintenance and operations (M&O) tax rate for the 2018 tax year. The bill requires TEA to post instead each district's maximum compressed rate for the current tax year and the preceding tax year. These provisions are effective January 1, 2025.

Comptroller's Study of School District Property Values

C.S.S.B. 3 requires the comptroller of public accounts, in the final certification of the study of school district property values, to separately identify the final taxable value for each district as adjusted to account for the reduction of the tax ceiling as calculated under applicable state law according to the formula provided for individuals who first qualified for the residence homestead exemption for the elderly or disabled in a tax year before the 2019 tax year, in the 2019 tax year, in the 2020 tax year, in the 2021 tax year, in the 2022 tax year, in the 2023 tax year, and in the 2024 tax year, respectively. These provisions expire January 1, 2025.

Additional State Aid to Account for Increases in Residence Homestead Exemption and Limitations Imposed Under Tax Ceiling for Elderly and Disabled

C.S.S.B. 3 entitles a school district, beginning with the 2023-2024 school year, to additional state aid to the extent that state and local revenue used to service eligible debt is less than the state and local revenue that would have been available to the district under state law providing for state aid to districts to account for increases in the general residence homestead exemption and the elderly or disabled tax ceiling as such state law existed on September 1, 2022, if any increase in a residence homestead exemption under the Texas Constitution, and any additional limitation on tax increases under the elderly or disabled tax ceiling provided for by the constitution, as proposed by the 88th Legislature, Regular Session, 2023, had not occurred. The bill establishes that the additional state aid to districts beginning with the 2023-2024 school year is equal to the amount by which the loss of local interest and sinking (I&S) revenue for debt service attributable to any such increase in a residence homestead exemption and any additional limitation on tax increases is not offset by a gain in state aid for instructional facilities and the payment of existing district debt. The bill further establishes that local I&S revenue for debt service is limited to revenue required to service eligible debt as of September 1, 2022, including refunding of that debt. The limitation on the amount of state aid provided to assist with the payment of existing district debt does not apply for the purpose of determining state aid under these provisions.

C.S.S.B. 3 entitles a school district, beginning with the 2023-2024 school year, to additional state aid to the extent that state and local revenue under state law governing the FSP and excess local revenue levels is less than the state and local revenue that would have been available to the district under such law as it existed on September 1, 2022, if any increase in a residence homestead exemption under the Texas Constitution, and any additional limitation on tax increases under the elderly or disabled tax ceiling provided for by the constitution, as proposed by the 88th Legislature, Regular Session, 2023, had not occurred. The lesser of the district's currently adopted M&O tax rate or the adopted M&O tax rate for the 2022 tax year is used for the purpose of determining that additional state aid.

Options to Reduce Local Revenue Levels in Excess of Entitlement

C.S.S.B. 3, contingent on the constitutional amendment proposed by S.J.R. 3, 88th Legislature, Regular Session, 2023, being approved by the voters in an election held for that purpose, requires the commissioner of education, as soon as practicable after receiving revised property values that reflect adoption of the constitutional amendment, to review the local revenue level of public school districts in Texas and revise as necessary the notifications provided to each district following the annual review of local revenues for the 2023-2024 school year. This provision expires September 1, 2024.

C.S.S.B. 3 authorizes a district that has not previously held an election to approve an option selected by the district to reduce its local revenue levels that are in excess of the amount of the district's entitlement under the FSP and that enters into an agreement to exercise an option to reduce its excess local revenue levels for the 2023-2024 school year by purchasing average daily attendance credit, educating nonresident students, or consolidating a tax base with another district to request and receive approval from the commissioner to delay the date of the election otherwise required to be ordered before September 1. A district that receives approval from the commissioner to delay an election may adopt a tax rate for the 2023 tax year before the commissioner certifies that the district has appropriately reduced its local revenue level. These provisions expire September 1, 2024.

C.S.S.B. 3 requires the commissioner to approve a district's request to delay the election if the commissioner determines that the district would not have a local revenue level in excess of entitlement if the constitutional amendment proposed by S.J.R. 3, 88th Legislature, Regular Session, 2023, were approved by the voters. The bill requires the commissioner to set a date by which each district that receives approval to delay an election must ultimately order the election and requires the commissioner, not later than the 2024-2025 school year, to order detachment and annexation of district property or consolidation as necessary to reduce the excess local revenue levels for a district that receives approval to delay an election and subsequently fails to hold the election or does not receive voter approval at the election. These provisions expire September 1, 2025.

C.S.S.B. 3 establishes that, during the 2023-2024 school year, statutory provisions governing the date of an election held to approve an option to reduce excess local revenue levels do not apply to a district that receives approval from the commissioner of a request to delay the election as provided by the bill. The bill requires the district to hold the election on a Tuesday or Saturday on or before a date specified by the commissioner and makes Election Code provisions regarding the uniform election dates inapplicable to the election. These provisions expire September 1, 2024.

C.S.S.B. 3 requires a district that opts to reduce its excess local revenue levels by purchasing attendance credit and that receives approval of a request to delay the election to approve that purchase as provided by the bill to pay for credit purchased in equal monthly payments as determined by the commissioner beginning March 15, 2024, and ending August 15, 2024. Alternatively, the district may pay for credit purchased with one lump sum payment made not later than August 15, 2024 provided that the district notifies the commissioner of the district's election to pay through a lump sum not later than March 15, 2024. These provisions expire September 1, 2024.

C.S.S.B. 3 requires the commissioner to order any detachments and annexations of property for the 2023-2024 school year as a means of reducing excess local revenue levels as soon as practicable after the canvass of the votes on the constitutional amendment proposed by S.J.R. 3, 88th Legislature, Regular Session, 2023. This requirement expires September 1, 2024.

The portions of the bill pertaining to the options to reduce local revenue levels in excess of entitlement take effect immediately if the bill receives the requisite two-thirds constitutional vote and, if not, on the 91st day after the last day of the legislative session.

Applicability

C.S.S.B. 3 establishes that, except as otherwise provided by the bill, the portions of the bill relating to the school district residence homestead exemption, the elderly and disabled property tax ceiling, and the protection of districts against the resulting loss in local revenue take effect on the date on which the constitutional amendment proposed by S.J.R. 3, 88th Legislature, Regular Session, 2023, takes effect. The bill further establishes that if that amendment is not approved by the voters, those portions of the bill have no effect.

Limitations on Increases in Appraised Value

C.S.S.B. 3 makes the limitation on the appraised value of a residence homestead applicable to all real property, which includes a manufactured home that qualifies as a residence homestead regardless of whether the owner elects to treat the manufactured home as real property. With respect to this limitation, the bill decreases the allowable year-over-year increase in a property's appraised value from 10 percent to five percent. This revised limitation takes effect on January 1 of the tax year following the first tax year in which the owner owns the property on January 1 and expires on January 1 of the first tax year following the year in which the owner ceases to own the property, except that:

- if the property qualifies for a residence homestead exemption when the ownership of the property is transferred to the owner's spouse or surviving spouse, the limitation expires on January 1 of the first tax year following the year in which the spouse or surviving spouse ceases to own the property, unless the limitation is further continued on the subsequent transfer to a spouse or surviving spouse; or
- if the property is not a residence homestead and is owned by two or more persons, the limitation expires on January 1 of the first tax year following the year in which the ownership of at least a 50 percent interest in the property is sold or otherwise transferred.

For purposes of applying the limitation, a person who acquired real property in a tax year before the 2023 tax year, other than property that qualified as the person's residence homestead in the 2023 tax year, is considered to have acquired the property on January 1, 2023.

These provisions take effect on the date on which the corresponding constitutional amendment proposed by S.J.R. 3, 88th Legislature, Regular Session, 2023, is approved by the voters, and apply only to appraisals for a tax year that begins on or after that date. If the amendment proposed by S.J.R. 3 is not approved by the voters, these provisions have no effect.

Escrow Accounts

C.S.S.B. 3 removes a tax collector's discretion regarding whether to enter into a contract with a property owner for the establishment of an escrow account to provide for the payment of property taxes by requiring a collector to do so on an owner's request. This change takes effect January 1, 2024, and applies only to a tax year beginning on or after that date.

Transitional Tax Year Provisions

C.S.S.B. 3 requires the chief appraiser of an appraisal district to prepare supplemental appraisal records for the 2023 tax year to account for the changes in law made by the bill.

C.S.S.B. 3 requires the assessor for a taxing unit, on receipt of the appraisal roll for the 2023 tax year, to determine the total taxable value of property taxable by the taxing unit and the taxable value of new property as if the changes in law made by the bill were in effect for that tax year. The bill requires the officer or employee designated by the governing body of a taxing unit to calculate the unit's no-new-revenue (NNR) tax rate and the voter-approval tax rate (VATR) to do so for the 2023 tax year as if the changes in law made by the bill were in effect for that tax year.

C.S.S.B. 3 provides that, for the purposes of calculating the NNR tax rate, the VATR, and any related tax rate for the 2023 tax year, a taxing unit that calculates those rates under a provision of law other than Tax Code provisions relating to the submission of the appraisal to the governing body, to the calculation of the NNR tax rate and VATR, or to an automatic election to approve the tax rate of a school district, must calculate those rates as if the changes in law made by the bill were in effect for that tax year.

C.S.S.B. 3 requires that, for purposes of state law providing for an automatic election to approve an adopted tax rate of a school district that exceeds its VATR, a district's VATR for the 2023 tax year be calculated as if the changes in law made by the bill were in effect for that tax year.

C.S.S.B. 3 requires the assessor for a taxing unit to calculate the amount of tax imposed by the unit on real property for the 2023 tax year as if the changes in law made by the bill were in effect for that tax year and also as if the changes in law made by the bill were not in effect for that tax year. The bill also requires the assessor to correct the unit's tax roll for the 2023 tax year to reflect the results of the election to approve the constitutional amendment proposed by S.J.R. 3, 88th Legislature, Regular Session, 2023.

C.S.S.B. 3 provides the following with respect to taxes imposed by a taxing unit on real property for the 2023 tax year, applicable only if the changes in law made by the bill would lower the taxes imposed by the unit on the property for that tax year:

- the assessor for the taxing unit must compute the amount of taxes imposed and the other information required for the property's tax bill as if the changes in law made by the bill were in effect for that tax year;
- the tax bill or the separate statement accompanying the tax bill must indicate that the bill is a provisional tax bill and include a statement, in substantially the same form as set out by the bill, indicating the following:
 - the amount the tax bill would have been if the bill's provisions were not in effect for that tax year;
 - the difference between the amount that the tax bill would have been if the bill's provisions were not in effect for that tax year and the amount that the tax bill is with those changes in effect;
 - the amount of the tax bill as lowered by the changes made by the bill and contingent on the approval by the voters at an election to be held November 7, 2023, of the constitutional amendment proposed by S.J.R. 3, 88th Legislature, Regular Session, 2023; and
 - the amount of the supplemental tax bill that will be mailed if that amendment is not approved by the voters;
- the tax bill prepared by the assessor as provided by the bill and mailed as provided by applicable state law is considered to be a provisional tax bill until the canvass of the votes on the constitutional amendment proposed by S.J.R. 3, 88th Legislature, Regular Session, 2023, and, if the constitutional amendment is approved by the voters, the tax bill is considered to be a final tax bill for the taxes imposed on the property for the 2023 tax year, and no additional tax bill is required to be mailed unless another provision the property tax code requires the mailing of a corrected tax bill; and
- if that constitutional amendment is not approved by the voters:
 - the tax bill prepared by the assessor as provided by the bill is considered to be a final tax bill but only as to the portion of the taxes imposed on the property for the 2023 tax year that are included in the bill;
 - the amount of taxes imposed by each taxing unit on real property for the 2023 tax year is calculated as if the changes in law made by the bill were not in effect for that tax year; and
 - the assessor for each taxing unit must prepare and mail a supplemental tax bill, by December 1 or as soon thereafter as practicable, in an amount equal to the difference between the amount of the tax bill if the changes in law made by the bill were not in effect for that tax year and the amount of the tax bill if those changes were in effect for that tax year.

The provisions of state law otherwise applicable to tax bills apply to such a supplemental tax bill, except as otherwise provided by the bill's provisions. The taxes for which such a supplemental tax bill is mailed are due on receipt of the bill and are delinquent if not paid before March 1 of the year following the year in which imposed.

These provisions expire December 31, 2024.

Repealed Provisions

Effective January 1, 2024, C.S.S.B. 3 repeals Sections 31.072(h) and (i), Tax Code. These repeals apply only with respect to a tax year that begins on or after that date.

Contingent on voter approval of the constitutional amendment proposed by S.J.R. 3, 88th Legislature, Regular Session, 2023, C.S.S.B. 3 repeals the following provisions of the Tax Code:

- effective on the date on which that amendment is approved:
 - Sections 11.26(a-1), (a-2), and (a-3); and
 - Section 23.23(c-1); and
- effective January 1, 2025, Sections 11.26(a-5), (a-6), (a-7), (a-8), and (a-9).

The repeal of Section 23.23(c-1), Tax Code, applies only to the appraisal for property tax purposes of property for a tax year that begins on or after the date on which the voters approve that constitutional amendment.

EFFECTIVE DATE

Except as otherwise provided, September 1, 2023.

COMPARISON OF SENATE ENGROSSED AND SUBSTITUTE

While C.S.S.B. 3 may differ from the engrossed in minor or nonsubstantive ways, the following summarizes the substantial differences between the engrossed and committee substitute versions of the bill.

Whereas the engrossed increased the amount of the general school district residence homestead property tax exemption from \$40,000 to \$70,000, the substitute increases that exemption instead to \$100,000. The substitute omits the provision from the engrossed increasing the amount of the school district residence homestead property tax exemption for elderly or disabled individuals from \$10,000 to \$30,000.

The substitute provides for an amount equal to the product of \$60,000 and the applicable school district tax rate for the 2023 tax year to be subtracted from the elderly or disabled tax ceiling calculated for that tax year for an individual for whom the 2022 tax year or an earlier tax year was the first tax year the individual or the individual's spouse qualified for the residence homestead exemption for the elderly or disabled. The engrossed provided for an amount equal to the product of \$50,000 and the applicable 2023 district tax rate to be subtracted.

The substitute includes provisions absent from the engrossed relating to school district tax rate compression, the limitation on increases in appraised value, and escrow accounts.

Accounting for the inclusion of these additional provisions, the substitute revises the various transitional tax year provisions included in the bill to replace requirements for the various actions to be reflective of or based on the increased homestead exemption amounts of \$70,000 and \$30,000, respectively, as in the engrossed, with requirements for those actions to account for or be reflective of the changes in law made by the bill as if those changes were in effect for the 2023 tax year. Moreover, whereas those provisions were applicable only to school districts in the engrossed, the substitute makes them applicable to all taxing units, except with respect to the provision applicable to the calculation of a school district's VATR, the applicability of which is not changed in the substitute. The substitute includes an additional transitional tax year provision not in the engrossed providing that, for the purposes of calculating the NNR tax rate, the VATR, and any related tax rate for the 2023 tax year, a taxing unit that calculates those rates under a provision of law other than Tax Code provisions relating to the submission of the appraisal to the governing body, to the calculation of the NNR tax rate and VATR, or to an

automatic election to approve the tax rate of a school district, must calculate those rates as if the changes in law made by the bill were in effect for that tax year.

The substitute includes additional effective date provisions applicable to the portions of the bill added by the substitute that were not included in the engrossed, including a provision establishing a September 1, 2023, effective date for the bill, except as otherwise provided.

The substitute includes a short title absent from the engrossed establishing that the bill may be cited as the Property Tax Relief Act.