

BILL ANALYSIS

Senate Research Center
88R17171 KJE-D

S.B. 4
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Finance
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AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

In 2019 the legislature passed H.B. 3, which modernized school funding formulas, and created the maximum compressed rate (MCR) under Section 48.2551, Education Code. H.B. 3 (86R) also implemented a limitation on a school district's maximum compressed rate, providing that if a school district's MCR would be less than 90% of another district's MCR, the school district's MCR is set at 90% of the other district's MCR. This limitation is commonly referred to as the 10% equity band.

In 2022, historically large increases in school district appraisal rolls led to historic tax rate compression, which compressed many school districts' calculated MCR well below the MCR floor established by Section 42.551, Education Code. However, these school districts were restrained from compressing their tax rates further by the 90% limitation on these school districts' MCR. This additional local tax effort has increased the total number of recapture districts in Texas to 228.

S.B. 4 seeks to reduce the number of school districts required to pay recapture by reducing the limitation on a school district's MCR from 90% of another school district's MCR to 80% of another school district's MCR. The reduction in the MCR limitation will allow more school districts that are clustered at the MCR floor to reduce their tax rates further, thereby reducing the amount of recapture they pay.

Additionally, S.B. 4 seeks to provide \$5.38 billion for an additional 7.03 pennies of MCR compression via Rider 81 in S.B. 1.

S.B. 4 is the enabling legislation for S.J.R. 4.

S.B. 4 seeks to provide more school district M&O compression, which in turn helps to reduce recapture.

As proposed, S.B. 4 amends current law relating to the maximum compressed tax rate of a school district.

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 48.2552(b), Education Code, as follows:

(b) Provides that if a school district's maximum compressed rate as calculated under Section 48.2551(b) (relating to calculating a district's maximum compressed rate) would be less than 80 percent, rather than 90 percent, of another school district's maximum compressed rate, the district's maximum compressed rate is the value at which the district's maximum compressed rate would be equal to 80 percent, rather than 90 percent, of the other district's maximum compressed rate.

SECTION 2. Amends Subchapter F, Chapter 48, Education Code, by adding Section 48.2555, as follows:

Sec. 48.2555. MAXIMUM COMPRESSED TAX RATE FOR 2023–2024 SCHOOL YEAR. (a) Requires the commissioner of education (commissioner) to calculate, for the 2023–2024 school year, the value of a school district's maximum compressed tax rate by determining the district's maximum compressed rate under Section 48.2551 (Maximum Compressed Tax Rate) or 48.2552(b) (relating to calculating a district's maximum compressed tax rate), if applicable, and reduce the tax rate determined under the applicable section by the amount by which the commissioner is authorized to reduce each district's maximum compressed tax rate by an equal amount using money appropriated for the purpose of reducing each district's maximum compressed tax rate under this section, notwithstanding any other provision of Title 2 (Public Education) or Chapter 26 (Assessment), Tax Code.

(b) Provides that if a school district's maximum compressed tax rate as calculated under Subsection (a) would be less than 80 percent of another school district's maximum compressed tax rate under Subsection (a), the district's maximum compressed tax rate is the value at which the district's maximum compressed tax rate would be equal to 80 percent of the other district's maximum compressed tax rate.

(c) Provides that a reference in any of the following provisions of law to a school district's maximum compressed tax rate or maximum compressed rate as determined under Section 48.2551 means the maximum compressed tax rate determined for the district under this section, notwithstanding any other provision of this title or Chapter 26, Tax Code, for purposes of determining funding for school districts for the 2023-2024 school year:

(1) Section 13.054(f) (relating to requiring a school district to receive additional funding for the first five years beginning with the school year in which an annexation occurs);

(2) Section 45.003(d) (relating to requiring that a proposition submitted to authorize the levy of maintenance taxes include the question of whether the governing board or commissioners court is authorized to levy, assess, and collect annual ad valorem taxes for the further maintenance of public schools, at a rate not to exceed the rate stated in the proposition);

(3) Section 45.0032(a) (relating to providing that a school district's tier one maintenance and operations tax rate is the number of cents levied by the district for maintenance and operations that does not exceed the maximum compressed rate);

(4) Section 48.051(a) (relating to providing that for each student in average daily attendance, a district is entitled to a certain allotment);

(5) Sections 48.2553(a) (relating to authorizing a school district to adopt a maintenance and operations tax rate that exceeds the maximum compressed tax rate under Section 48.2551, under certain circumstances) and (e) (related to requiring the commissioner to reduce state aid or adjust the limit on local revenue in an amount of revenue generated by a school district's tax effort that is not in compliance with Section 48.2553 (Permitted Tax Rate for Maintenance of 2020-2021 School Year Basic Allotment) or Section 48.2551); and

(6) Section 26.08(n) (relating to calculating the voter approval tax rate of a school district), Tax Code.

(d) Provides that a reference in Section 30.003(f-1) (relating to requiring the commissioner to determine that the total amount the Texas School for the Blind and Visually Impaired and the Texas School for the Deaf would have received from school districts in certain circumstances) to Section 48.2551 includes this section for the purpose of that section.

(e) Provides that the value of the district's "PYMCR" is the maximum compressed tax rate determined for the district under this section for the preceding school year notwithstanding any other provision of this title, for purposes of determining a school district's maximum compressed tax rate under Section 48.2551 for the 2024-2025 school year.

(f) Provides that this section expires September 1, 2025.

SECTION 3. Effective date: September 1, 2023.