

LEGISLATIVE BUDGET BOARD

Austin, Texas

FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION

April 19, 2023

TO: Honorable Brandon Creighton, Chair, Senate Committee on Education

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: SB1064 by Middleton (Relating to the school district property value study conducted by the comptroller of public accounts.), **As Introduced**

Passage of the bill would lower the required level of appraisal for all categories of property sampled from 90 percent to 80 percent and increase from five percent to 10 percent the margin of error the Comptroller's office may apply in determining the validity of school district taxable values for use in school funding formulas. As a result taxable values could be reduced and the related costs to the Foundation School Fund could be increased through the operation of the school finance formulas.

The bill would amend Chapter 403, Subchapter M of the Government Code, regarding the Comptroller's study of school district property values, to modify the eligibility for a school district with an invalid local value to receive a grace period by lowering the required level of appraisal for all categories of property sampled from 90 percent to 80 percent of the lower limit of the margin of error. The bill would increase the maximum margin of error the Comptroller may apply in determining the validity of school district taxable values reported to the Commissioner of Education for use in school funding formulas from five percent to 10 percent.

The bill would apply to the annual school district property value study (PVS) for the 2024 tax year.

The PVS employs a statistical sampling procedure to estimate the taxable value in each Texas school district for use in school funding formulas to ensure equitable distribution of state funding for public education. As in any sample, the result has a margin of error, a statistic that indicates the reliability of the estimate. In general, larger samples and greater uniformity in local appraisals result in smaller margins of error. Under current law, the margin of error used by the Comptroller may not exceed five percent unless not feasible given the size of the sample of properties in which case the Comptroller may use a larger margin. As such, the Comptroller's school district property samples are sized to provide a plus or minus 5 percent margin of error, or lower, in the great majority of Texas school districts. The bill would increase the maximum target margin of error used in the PVS to ten percent.

The PVS indirectly encourages appraisal districts to keep values above 95 percent of the market value standard set by state law for most kinds of property. This is a result of current law requiring that if a school district's value falls below 95 percent of the state's estimate for property categories included in the PVS, the school district's value is deemed "invalid." If certain conditions are met the school district is granted a two year grace period and an appraisal standards review is triggered for the appraisal district. If the school district values are not at or above 95 percent of the state's estimate in the third year the school district could receive less than their expected amount of funding.

Doubling the allowed margin of error would reduce this pressure, and values could drop below the amounts that are currently projected in each year by approximately one percent per year. The first effect on appraisal district values would be in the 2024 tax year, which affects 2025 fiscal year. Because the bill would not require the Comptroller to increase the target margin of error, the cost of the proposed legislation cannot be estimated.

A school district with an invalid finding may be eligible for the grace period under certain conditions. The grace period allows the Comptroller to certify local values to the Commissioner of Education for use in the school

funding formulas despite the local values being less than required market value. By certifying local value, the state is covering the loss in local revenue through additional state funding. Expanding eligibility for the grace period by increasing the requirement that local values be within 80 percent of the lower limit of the confidence interval would increase the number of school districts that qualify for grace. For the 2022 Preliminary PVS, approximately 70 additional school districts would be eligible for grace and the statewide value certified to the Commissioner of Education would have been reduced by approximately \$12.0 billion. This would create a cost to the state through the school funding formulas.

Government Code Section 403.302(d) defines taxable value for purposes of the SDPVS and requires the Comptroller to adjust the market value of all taxable property by amounts attributable to the granting of certain exemptions, abatements, and limitations. The adjustments are based on the difference between the market value of the property and the taxable value of the property. Section 23.01(e), Tax Code, provides that the chief appraiser cannot increase a property's value if the property value was lowered in the preceding year through a protest of appeal without clear and convincing evidence. The addition of this section to the description of the portion of market value not otherwise fully taxable by the school district because of action required by statute would result in an adjustment in the study only if a difference existed between the market value as determined by the appraisal district and the taxable value of the property in the current year. If the appraisal district did not increase the value of the property following a protest or appeal determination in the prior year, the difference between the market value of the property and the taxable value of the property in the current year would be zero.

However, strictly for purposes of illustration, a hypothetical fiscal impact was estimated, under the following assumptions. The target margin of error used in the PVS increased to 10 percent from 5 percent. If this were to occur, some of the incentive for appraisal districts to keep property values at or near market value would be lost. It was assumed that the statewide average percentage of market value at which properties are appraised would fall below current projections by 1 percent per year until values were just above the new 10 percent target margin of error threshold as provided in the bill. The value loss would cause corresponding levy losses to school districts. The mechanics of the school finance system would transfer a portion of the fiscal impact to school districts to the state. Projected school district tax rates were applied to the appropriate value loss in each year through the five-year projection period to estimate tax revenue losses.

The following reflects the potential fiscal impact if the Comptroller applied the proposed maximum 10 percent margin of error in conducting the annual school district property value study:

The estimate school district levy loss in this hypothetical would be \$393,239,000 in fiscal year 2026, \$421,132,000 in fiscal year 2027, and \$883,825,000 in fiscal year 2028.

The estimated cost to the Foundation School Program in this hypothetical would be an increase in state aid of \$269,979,000 in fiscal year 2026, \$292,047,000 in fiscal year 2027, and \$610,205,000 in fiscal year 2028.

Local Government Impact

Passage of the bill would lower the required level of appraisal for all categories of property sampled from 90 percent to 80 percent and increase from five percent to 10 percent the margin of error the Comptroller's office may apply in determining the validity of school district taxable values for use in school funding formulas. As a result taxable values for units of local government could be reduced. However, the no-new-revenue and voter-approval tax rates as provided by Section 26.04, Tax Code could be higher as a consequence of the reduced taxable value that could result if the Comptroller chose to increase the margin of error used in the property value study.

Source Agencies: 304 Comptroller of Public Accounts, 701 Texas Education Agency

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