



LEGISLATIVE BUDGET BOARD

Overview of Recent Property Tax Legislation

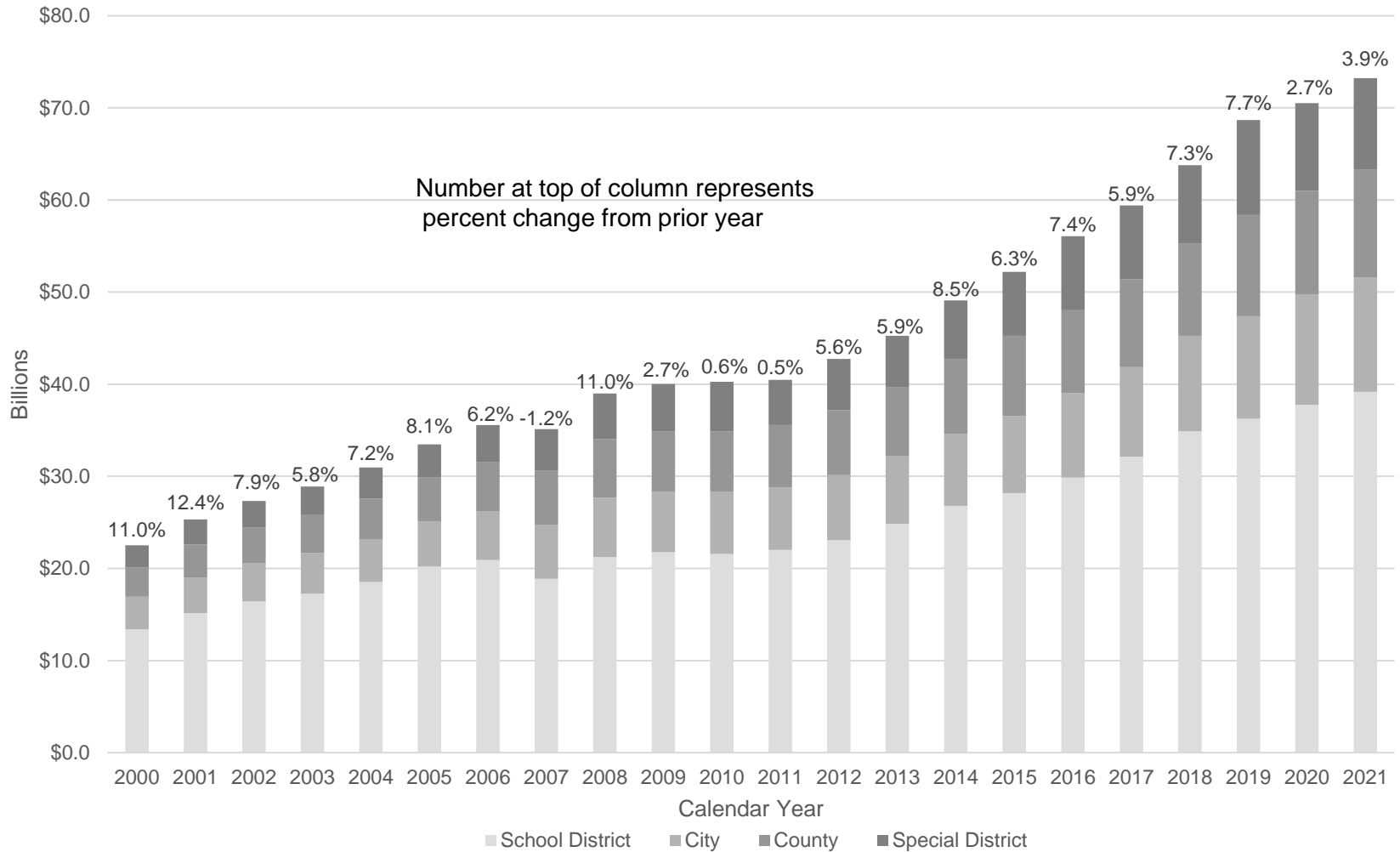
**PRESENTED TO SENATE COMMITTEE ON FINANCE
LEGISLATIVE BUDGET BOARD STAFF**

MAY 2022

Statement of Interim Charge

Property Tax Relief: *Examine and recommend ways to reduce Texans' property tax burden. Review and report on proposals to use or dedicate state revenues in excess of the state spending limit to eliminate the school district maintenance and operations property tax.*

Texas Property Tax Levies



State Cost of Property Tax Relief

- Foundation School Program (FSP) formula funding for public schools is a shared obligation of the state and local school districts
- District and charter school FSP entitlement is determined by statutory formula, based primarily on student attendance and student characteristics
- District property taxes are the first funding source to pay for entitlement; the state pays the remaining costs
- If entitlement remains constant, increasing school district property taxes decreases state FSP costs

Types of Property Tax Relief

- Rate reduction
 - State Compression Percentage (Edu. Code § 48.255)
 - Maximum Compressed Tax Rate (Edu. Code § 48.2551)
 - Voter Approval Rate (Tax Code § 26.04)
- Exemptions
 - Residence Homestead Exemptions (Tax Code § 11.13)
 - O65/Disabled School Tax Ceiling (Tax Code § 11.26)
 - Freeport (Tax Code § 11.251)
 - Business Personal Property (Tax Code § 11.145)
 - Public, Religious, and Charitable Organizations (Tax Code § 11.11, 11.18, and 11.20)
- Special Appraisal Methods
 - 10% appraisal cap of residence homestead (Tax Code § 23.23)
 - Special appraisal for ag/timber land (Tax Code § 23.41-23.73, 23.9803)

HB 1, 79th Legislature, 3rd Called Session

- Compressed school district M&O tax rates by 1/3rd beginning in Fiscal Year 2008
- Allowed up to 17 “enrichment” pennies in excess of the compressed M&O rate, subject to voter approval
- Annual state cost of rate compression estimated to total \$7.1 billion in FY 2008
- One time rate compression that created ongoing cost now embedded in the school finance system

SB 1/SJR 1, 84th Legislature, Regular Session

- Increased the state mandated school district homestead exemption from \$15k to \$25k beginning in Fiscal Year 2016
- Adjusted the tax limitation for over 65 and disabled individuals to reflect the additional exemption
- Held districts harmless for the lost revenue at an estimated annual state cost of \$615.9 million in the first year, growing slightly in subsequent years

HB 3, 86th Legislature, Regular Session

- Compressed school district M&O Tier I tax rates by 7 pennies and Tier II tax rates by 3.2 pennies beginning in Fiscal Year 2020.
- Compression is ongoing in future years and determined by a school districts property value growth relative to the estimated statewide average
- Estimated state cost of the HB 3 compression was \$5.0 billion for the 2020-21 biennium

SB 2, 86th Legislature, Regular Session

- Renamed the “rollback rate” the “voter approval rate” and lowered the rate from 8 percent to 3.5 percent for taxing jurisdictions other than junior college districts, hospital districts, or districts with small tax rates
- Required an election for a taxing jurisdiction to adopt a rate in excess of the voter approval rate
- Estimated to reduce local property taxes by \$1.3 billion in 2020-21, the first full biennium of implementation
- No state cost associated with this legislation

SB 1/SJR 1, 87th Legislature, 3rd Called Session

- Increased the state mandated school district homestead exemption from \$25k to \$40k beginning in Fiscal Year 2023
- Held districts harmless for the lost revenue at an estimated annual state cost of \$355.3 million in the first year, growing slightly in subsequent years

Recent Legislative Proposals: Not Passed

- **SB 91, 87(2)** – Required between \$2.0 and \$4.0 billion in available GR be spent to provide each district with an equal, onetime reduction in maximum compressed rate
- **SB 1711, 87(R)** – Lowered the state compression percentage and included additional services in the sales tax base
- **SB 489 87(R)** – Reduced the limitation on appraised value increases for homesteads from 10% to 5%
- **SB 1086 86(R)** – Made all real property (as opposed to only homesteads) eligible for the limitation on appraised value
- **SB 1391 86(R)** – Increased the residence homestead exemption annually by the rate of inflation
- **SB 2441 86 (R)** – Increased the state sales tax rate and use the revenue generated to lower the state compression percentage
- **SB 411, 86 (R)** – Gradually phased out the property tax on retail inventories
- **SB 2468, 86 (R)** – Eliminated the maximum amount of local option homestead exemption (currently 20%)
- **HB 90, 87 (3)** – Used 90% of revenue above the CGR limit to lower the state compression percentage

HB 3 Report

The Legislative Budget Board, in conjunction with other appropriate state agencies, shall study possible methods of providing property tax relief through the reduction of school district maintenance and operations taxes.

House Bill 3 Report (published Sep. 2020)



LEGISLATIVE BUDGET BOARD

Contact the LBB

Legislative Budget Board

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