SUBJECT: Revising certain provisions related to property taxes

COMMITTEE: Ways & Means — committee substitute recommended

VOTE: 10 ayes — Meyer, Thierry, Button, Craddick, Gervin-Hawkins, Hefner, Muñoz, Noble, Raymond, Shine

1 nay — Turner

WITNESSES: For — Neal Patel, AAHOA; Blanca Aldaco, Aldacos Mexican Cuisine; Robin Armstrong, Galveston County Commissioner Pct4; Brad Wuest, Natural Bridge Caverns; Justin MacDonald, Texas Association of Builders; Skeeter Miller, The County Line (*Registered, but did not testify*: Corbin Van Arsdale, AGC-Texas Building Branch; Samuel Sheetz, Americans for Prosperity; Kyle Frazier, Mueller Inc; Cacie Madrid, San Antonio Chamber of Commerce; M. Scott Norman, Jr., Texas Association of Builders; Ron Hinkle, Texas Association of Campground Owners; Jim Dow, Texas Craft Brewers Guild; Garrett Coppedge, Texas Hotel and Lodging Association; James Quintero, Texas Public Policy Foundation; Kelsey Streufert, Texas Restaurant Association; John McCord, Texas Retailers Association; Ron Hinkle, Texas Travel Alliance; Jorge Martinez, The LIBRE initiative; Kerry Yarbrough)

Against — Dick Lavine, Every Texan; Bill Peacock, Huffines Liberty Foundation; Marcus Phipps, Texas Realtors; Cade Burr; Joseph Castellanos (*Registered, but did not testify*: Crystal Brown, Texas Building Owners and Managers Association; Carrie Griffith, Texas State Teachers Association; Fran Rhodes, True Texas Project; Patty Quinzi, TX- American Federation of Teachers; Susan Stewart)

On — Paul Pennington, Citizens for Appraisal Reform; Kevin Kavanaugh, Legislative Budget Board; Will Wiggins, NTPTS; Ray Head, TAPTP; Tim Hardin, Texans for Fiscal Responsibility; David Mintz, Texas Apartment Association; Glenn Hamer, Texas association of business; James LeBas, Texas Chemical Council, Texas Oil & Gas Association, and Texas Association of Manufacturers; Christy Rome, Texas School Coalition; Dale Craymer, Texas Taxpayers and Research Association; Mark Hutcheson, Popp Hutcheson; Jim Popp, Popp Hutcheson; Joe Comparin; Tony Comparin; Lorri Michel; Foy Mitchell; Walter Wolff (*Registered, but did not testify*: Allison Mansfield, Comptroller of Public Accounts; Brad Reynolds, Comptroller of Public Accounts; Annie Spilman, NFIB; Mike Meyer and James Terry, Texas Education Agency; Steve Laas)

BACKGROUND: Education Code sec. 48.2551 provides for the calculation of a school district's maximum compressed tax rate, which is the tax rate at which the district must levy a maintenance and operation tax to receive the full amount of the Tier 1 education allotment to which the district is entitled, and formulas to limit the growth of the maximum compressed rate.

DIGEST: CSHB 2 would lower property tax rates by reducing the maximum compressed tax rate for school districts and lowering the appraisal cap on real property. The bill also would provide property owners with additional options for making tax payments by requiring local tax collectors to establish escrow accounts at the request of a property owner.

School district maximum compressed tax rate. CSHB 2 would reduce the maximum compressed tax rate for each school district by $0.15 during the 2023-24 school year. If applying the reduction would lower a district's maximum compressed tax rate to less than 90 percent of another district's maximum compressed tax rate, the district's maximum compressed tax rate would be adjusted to equal 90 percent of the other district's maximum compressed tax rate.

To determine funding for the 2023-24 school year, statutory references that pertain to a school district's maximum compressed tax rate would mean the maximum compressed rate for the district as determined by the bill for the 2023-24 school year.

When determining funding for the 2024-25 school year, the bill would require that the value of a district's prior year maximum compressed tax rate be the district's maximum compressed tax rate for the preceding year.

The sections of the bill adjusting provisions related to a district's maximum compressed tax rate would expire September 1, 2025.

Appraisal cap. CSHB 2 would reduce the annual appraisal cap from 10 percent to 5 percent and would extend the cap to all real property. The bill would add to the definition of real property a manufactured home that qualifies as a residence homestead and would specify that the designation applied whether or not the owner of the manufactured home treated it as real property.

The reduced cap would take effect on January 1 of the tax year following the first tax year in which the owner owned the property on January 1. The bill also would specify the circumstances under which the annual appraisal cap would expire.

Escrow accounts. CSHB 2 would require a local property tax collector, at the request of a property owner, to enter into a contract that would allow the property owner to make payments into an escrow account maintained by the tax collector to pay the owner's property taxes. The bill would repeal two sections requiring tax collectors to enter into such contracts with designated parties. Under the bill, this article would apply only to a tax year beginning on or after the effective date of the article.

Homestead. References to "homestead" in applicable sections of the Tax Code would be changed to "property" to align with the extension of the annual appraisal cap to real property.

Effective dates. Changes that would be made to the school district maximum compressed tax rate would take effect on September 1, 2023. Changes related to escrow accounts would take effect on January 1, 2024. Changes to the limitation on appraised value would take effect January 1, 2024, provided voters approved a constitutional amendment proposed by the 88th Legislature, authorizing the Legislature to provide for a limitation on property taxes.

SUPPORTERS

CSHB 2 would provide property tax relief to homeowners and property

SAY:

owners throughout the state. The bill also would provide longer-term tax relief by sustaining lower tax levels into the future. Additionally, the bill would lower school property taxes, one of the largest components of property tax bills, and increase the state's share of public education funding over the next several years.

Lowering property taxes. Many Texans are struggling to afford increasing property taxes driven by dramatically increasing property values. Seniors and other homeowners on fixed incomes are least able to meet the higher tax demands, with some growing more concerned they will end up losing their homes when they cannot pay. To these lower-income individuals, even small property tax cuts could hold a significant financial benefit. Property tax obligations also are pricing potential homeowners out of homeownership. While an estimated mortgage payment could be within a potential homeowner's budget, adding the property tax obligation to the payment can make home buying cost prohibitive for many. Property tax relief is essential to business owners as well; lowering property tax obligations would help Texas businesses better cope with unprecedented inflation and losses due to COVID, not only sustaining the business but also enabling its growth and contribution to the state economy.

Appraisal cap. Reducing the appraisal cap from 10 percent to 5 percent could protect homeowners and businesses from rapid increases in property values and provide greater stability and predictability for property owners. Property value is a major determinant in property tax bills. Even as property tax rates decrease, Texans often must still pay higher taxes due to rising property values that outpaced the tax rate cuts. The lower cap would help level out property values for owners and reduce overall tax bills. Revenue saved by large property owners and businesses also could be used for investment and expansion. Slowing the growth of property values could provide incentives for businesses to relocate and expand in Texas, which could bring jobs and other tax revenue to bolster the state's economy.

Current statute restricting taxing jurisdictions from raising property taxes would not be impacted by lowering the appraisal cap. Existing law prevents most jurisdictions from increasing total maintenance and operations tax revenues by more than 3.5 percent without voter approval, and this law would still apply regardless of the appraisal cap. Additionally, reducing the appraisal cap would not reduce the existing taxable value of properties, meaning that local jurisdictions would not see a reduction in taxable value.

School district tax rate. Property taxes collected to support local schools are often the largest part of property owners' tax bills. CSHB 2 would lower the tax rate school districts could assess, both producing immediate property tax reductions and creating a lower base rate from which future taxes could be collected, helping to sustain these reductions into the future. CSHB 1, as passed by the House this session, would account for any lost funds within the school district with general revenue, increasing the state's contribution and investment in education. Lowering the tax rate would also reduce the number of school districts subject to state recapture payments, which occur when tax collections exceed the funding to which a district is statutorily entitled.

CRITICS SAY:

By reducing the school district property tax rate and lowering the appraisal cap, CSHB 2 would apply an approach to property taxes that may not benefit school districts or taxpayers.

Appraisal cap. Appraisal caps are based on an assumption that the local need for taxpayer dollars will remain steady from year to year. Caps do not lower the amount of revenue a local jurisdiction requires or demands, a disparity which local governments could solve by raising the relative tax rate. Reducing government spending could be a more effective way to lower property taxes. Capping appraisals also could redistribute the tax burden from more highly valued, rapidly appreciating properties to less valuable properties, which could result in taxpayers on the lower end of the economic spectrum benefiting less than those at the top.

Appraisal caps could create inequities across taxpayers depending on when property changed hands. New owners would pay taxes based on an assessment of the property's current market value while long term residents in the same neighborhood would pay taxes based on a taxed value that was capped years prior. In addition to real estate, this cap would apply to tangible personal property used by businesses such as machinery, equipment, and supplies. Unlike real estate, machinery and equipment often depreciate in value from year to year. Property declining in value would not benefit from a cap and could see higher tax rates.

School district tax rate. A similar reduction to school district property rates was made in 2019 that significantly reduced school revenue, and CSHB 2 would make even greater cuts. Using state dollars in lieu of property taxes could create problems for schools in the future if an economic downturn left the state with no choice but to cut school funding. While the state may currently have the funds to replace lost revenue, there is no guarantee it would be able to replace future losses. Inflation has already significantly impacted school budgets, and current school funding models do not provide the funds needed to keep up with rising costs. Reduced property taxes and the ensuing loss of recapture funds would not benefit school districts.

OTHER CRITICS SAY:

CSHB 2 would not adequately reform the property tax system. While lowering property taxes could provide a temporary remedy, it would not address larger property tax issues. The estimated tax reduction may not be large enough to provide sufficient relief or dramatically reduce tax bills.

NOTES:

According to the Legislative Budget Board, CSHB 2 would have a negative impact of about $12 billion on general revenue related funds.