

- SUBJECT:** Reducing the property tax rollback rate
- COMMITTEE:** Ways and Means — committee substitute recommended
- VOTE:** 8 ayes — D. Bonnen, Bohac, Darby, Murphy, Murr, Raymond, Shine, Springer
- 2 nays — Y. Davis, Stephenson
- 1 absent — E. Johnson
- SENATE VOTE:** On final passage, July 25 — 19-12 (Garcia, Hinojosa, Lucio, Menéndez, Miles, Rodríguez, Seliger, Uresti, Watson, West, Whitmire, Zaffirini)
- WITNESSES:** No public hearing
- BACKGROUND:** Tax Code, sec. 26.04 requires a taxing unit to calculate a rollback tax rate, defined as 1.08 times the maintenance and operations rate that would raise the same amount of revenue as the previous year, plus the current debt rate.
- Sec. 26.08 requires school districts that adopt tax rates exceeding the rollback rate to hold a tax rate ratification election. Under sec. 26.07, taxing units other than school districts can be required to hold such an election by a valid petition signed by a certain percentage of the unit's registered voters — at least 7 percent for a district in which the proposed rate would generate at least \$5 million, and at least 10 percent for one in which the proposed rate would generate a smaller amount of revenue.
- DIGEST:** CSSB 1 would reduce to 6 percent from 8 percent the rollback tax rate multiplier for taxing units other than small taxing units. The bill would define a "small taxing unit" as a junior college district or a taxing unit other than a school district for which the proposed tax rate:
- was 2 cents or less per \$100 of taxable value; or
 - would raise \$25 million or less in property tax revenue.

The bill also would require any taxing unit that was not a small taxing unit to hold an automatic rollback election upon the adoption of a rate higher than the rollback rate. This would expand the requirement in Tax Code, sec. 26.08, which currently applies only to school districts.

Small taxing units would continue to be subject to the 8 percent rollback multiplier. An election for such units to adopt a tax rate greater than the rollback rate would be triggered only by petition, as in current law.

The bill would allow a taxing unit located in an area declared a disaster area to be treated as a small taxing unit for up to three years after the disaster occurred, depending on appraisal values of property taxable by the unit.

CSSB 1 would establish similar provisions for calculating rollback rates and holding rollback elections for water districts that were classified as small taxing units and for those that were not.

The bill would take effect January 1, 2018.

**SUPPORTERS
SAY:**

CSSB 1 would ensure that large cities and counties effectively communicated the reasons for a drastic increase in the tax burden to voters, potentially reducing dissatisfaction with property taxes, as voters would better understand how their tax dollars helped their community.

Under current law, rollback elections for city and county tax rates are possible but happen only by a petition of a certain percentage of the voters. In high-population areas, this makes rollback elections effectively impossible as they may require tens of thousands of signatures to be gathered on a tight deadline. Requiring automatic rollback elections would ensure that taxpayers had a direct say in their government's budget process and would avoid a petition process that puts the burden on the residents.

The current 8 percent limit was enacted when inflation was very high,

meaning the current limit has become effectively higher over the years and no longer provides taxpayers the intended protections. Even with an 8 percent limit, a locality's tax burden could double in nine years. The bill would be a step toward re-empowering the voice of the voters.

The bill would not result in less efficient budgeting, as taxing units must make the same calculations now with an 8 percent rollback rate. The bill merely would compress those calculations and compel cities to be more conservative with taxpayer dollars. Few taxing units would regularly exceed the 6 percent limit, and those that do should have the responsibility of making their case to taxpayers.

Reducing the limit to 6 percent would be reasonable and would not prohibit large tax increases; it merely would require localities to seek voter approval before such an increase. Most local taxing units do not regularly need to exceed the 6 percent limit. Bond ratings would not necessarily be threatened because this bill would only tangentially affect one factor among many in bond ratings.

CSSB 1 should be seen more as a bill to increase transparency and improve truth in taxation than as a bill that is intended to provide tax relief. While the state alternatively could increase its share of education funding, as some have suggested, it still should not pass up the opportunity to ensure that taxpayers have an effective voice in their local governments.

While reducing the rollback rate further would empower more taxpayers, a 6 percent multiplier represents a balanced position. CSSB 1 represents a drastic step forward because the rollback elections in high-population areas would be automatic. This alone would ensure the bill was successful in increasing transparency and communication between taxing units and taxpayers.

**OPPONENTS
SAY:**

CSSB 1 would impair the ability of localities to budget and plan for growth, while providing little savings to taxpayers. Many fast-growth cities may need to increase beyond the 6 percent rollback rate regularly,

and this bill would make their budget process essentially dependent on voter approval every year, jeopardizing their ability to provide essential services. While it is true that voters might approve the higher tax rate, there is no guarantee they would choose to do so even if it were desperately needed.

Contrary to its intent, this bill would incentivize higher tax rates and greater tax burdens, as localities may choose to levy the highest possible tax rate in the current tax year to avoid a rollback election in the next tax year or to build up cash reserves against the possibility of a future emergency. It also could incentivize inefficient multi-year budgeting, instead of a pay-as-you-go system where the locality imposes a tax burden only when it is necessary.

Requiring automatic elections could put excellent bond ratings for Texas cities at risk. Credit rating agencies seriously consider the flexibility that cities have to adjust their budgets year to year. The bill could reduce those ratings, costing taxpayers more in interest on bonds.

CSSB 1 also is unnecessary, as local government officials can be held responsible directly by voters for decisions to increase the tax burden. A specific rollback election is not needed when elected officials themselves can be held responsible. This bill merely would increase the costs associated with elections.

The bill would not result in significant savings to homeowners because it would not affect the main source of the property tax burden in the state. Most property taxes are levied by school districts and already are subject to automatic rollback elections. Property tax reform instead should start by increasing state spending on education, which accounts for the majority of property tax revenue in Texas and is the most direct way to address high property taxes. Texas relies heavily on local revenue because of spending austerity at the state level, and it should not restrict the ability of localities to ensure residents receive the services they need.

OTHER

CSSB 1 would not go far enough and should further reduce the rollback

OPPONENTS
SAY:

rate. It is important for taxpayers to know and have a voice in their local taxing units' budget process, and a 6 percent rollback rate would not trigger an election for many tax increases.

NOTES:

The committee substitute differs in several ways from the bill as passed by the Senate. The bill as passed by the Senate contains provisions similar to those in HB 32 by D. Bonnen, which passed the House on August 4, in addition to the provisions in this committee substitute. The Senate-passed version also would implement a 4 percent rollback multiplier.