SUBJECT: Reducing school property taxes, requiring study of consumption taxes

COMMITTEE: Ways and Means — committee substitute recommended

VOTE: 8 ayes — Burrows, Guillen, Bohac, Murphy, Noble, Sanford, Shaheen, Wray

3 nays — Cole, Martinez Fischer, E. Rodriguez

WITNESSES: For —Terry Holcomb, Republican Party of Texas; Mark Ramsey, Republican Party of Texas, SREC SD7; Tom Glass; Terri Hall; Roy Morales; (*Registered, but did not testify*: Drew Schebrele, The Greater Austin Chamber of Commerce; Don Dixon)

Against — (*Registered, but did not testify*: Laurie Filipelli, League of Women Voters of Texas; Robert Braziel, Texas Automobile Dealers Association; James LeBas, Texas Oil and Gas Association; Dale Craymer, Texas Taxpayers and Research Association)

On — (*Registered, but did not testify*: Vance Ginn, Texas Public Policy Foundation)

BACKGROUND: School districts levy a maintenance and operations tax on local property to pay for school operations. This tax is capped at $1.17 per $100 of taxable property value. A district's tax revenue is used to calculate the level of state funding in school finance formulas.

DIGEST: CSHB 297 would end school district maintenance and operations taxes in January 2022 and require the formation of a joint interim legislative committee to study funding schools with consumption taxes.

The bill would prohibit a school district from imposing a tax for maintenance and operations beginning January 1, 2022. Districts would still be allowed to impose an enrichment tax at a rate not to exceed 17 cents per $100 of taxable property value to provide additional revenue to enrich student educational opportunities.

The bill also would create the Joint Interim Committee on the Elimination of School District Maintenance and Operations Ad Valorem Taxes. The committee would be composed of five House members appointed by the speaker and five senators appointed by the lieutenant governor. The appointments would have to be made by the 60th day after the bill became effective, and the speaker and lieutenant governor each would designate a co-chair from among the committee members.

The committee would have to consider and evaluate:

- the effectiveness of increasing the rate or expanding the application of state consumption taxes and using the revenue to meet the state's constitutional duty to fund schools;
- the effectiveness of imposing consumption taxes not currently imposed by the state and using the revenue to meet the state's constitutional duty to fund schools;
- the ability of state-imposed consumption taxes to adequately respond to annual changes in school districts' unique funding needs; and
- the effects of an increase in consumption taxes on Texas residents and businesses.

The committee would be required to submit a report to the Legislature by November 1, 2020. This report would have to:

- address the feasibility of using consumption taxes for the support and maintenance of an efficient public school system;
- propose a comprehensive plan to use consumption tax revenue for the support and maintenance of an efficient school system; and
- propose legislation necessary to implement the comprehensive plan.

The report's proposals would have to allow a school district to impose a property tax for school enrichment of up to 17 cents per $100 of taxable property value.

The committee would be abolished January 1, 2021.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2019.

SUPPORTERS SAY:

CSHB 297 would address the reliance on property taxes to fund education by eliminating maintenance and operations (M&O) taxes that account for roughly half of property taxes paid by Texans and requiring a legislative study on funding schools through consumption taxes. The bill would continue the legislative conversation about how best to fund public education, and it would place a January 2022 deadline to eliminate M&O taxes to ensure the Legislature took action before the end of the 2021 legislative session.

Property taxes in many areas of the state increase year after year and can inhibit homeownership. Eliminating M&O taxes would end the need for the unpopular recapture system that redistributes tax revenue from property-wealthy districts to those of lower wealth. While some have said districts would lose local control over their budgets if they were unable to levy M&O taxes, districts already have little local control under the school finance formulas. Districts would retain control to levy a small property tax for local enrichment programs.

The bill would be revenue-neutral for school districts because the M&O taxes would be replaced by another revenue source. It also would address criticism that the state's share of education funding has been declining. While some have raised concerns about the level of consumption taxes that would be needed to replace $58.5 billion in local property taxes, the committee could also look at broadening the base of taxable items and services. Consumption taxes allow Texans to control their taxation by reducing consumption and would be preferable to continually rising property taxes.

OPPONENTS

CSHB 297 would eliminate a stable source of revenue and replace it with

SAY: one that is less stable. Sales taxes tend to rise and fall as consumers adjust spending in response to economic trends. The level of sales taxes needed to replace $58.5 billion in M&O taxes over a two-year period could result in Texas consumers paying some of the highest sales tax rates in the country. The bill also would unfairly shift the state's tax burden onto those least able to pay it by increasing the sales tax to pay for a decrease in property taxes. By eliminating the ability of school districts to levy M&O taxes, a significant amount of local control over revenue for public schools could be lost.

NOTES: According to the Legislative Budget Board, the bill would have a negative impact of about $58.5 billion on general revenue related funds for fiscal 2022-23.