

**STATEWIDE:**

**Texas Property Tax Reform and Relief Act** – On Thursday, Governor Greg Abbott, Lt. Governor Dan Patrick, and Speaker Dennis Bonnen held a joint press conference to announce their support for the Texas Property Tax Reform and Relief Act. They were joined at the press conference by Senator Paul Bettencourt (R-Houston), who filed SB 2, the Senate version of the bill; and Representative Dustin Burrows (R-Lubbock), who filed HB 2, the House version (the bills are identical). Governor Abbott said, "These two bills start the conversation for meaningful property tax reform and relief for all Texas taxpayers. As I said at the opening of the 86th Legislative session, we are going to solve school finance reform and property tax reform this session." Lt. Governor Patrick added, "I first came to Austin as a civilian witness to lower property taxes in 2003. It has been a long fight, but it is a fight worth having for the people. People desperately need property tax reform, our businesses need property tax reform, and we have set out on this day a major piece of legislation to set the tone on this major issue." Speaker Bonnen called the bill "the first step in solving the biggest problem facing Texas taxpayers." Senator Bettencourt added, "The average homeowner in Houston has endured a 37 percent increase on their property tax bill in just four years to nearly \$5,000 in total and annual property values on an average Dallas home have climbed to over 33 percent to \$5,000 too. As appraised values go up, tax rates must come down." (Specifics on the bills are included in the Tax section below.)

**Democrats Respond** – Two Democrats on the House Ways and Means Committee held a press conference on Thursday afternoon urging the House to move cautiously on the property tax reform proposal. And, they criticized the plan for not including provisions that increase the funding for public education. Representative Eddie Rodriguez (D-Austin) said, "Starting the rollback rate at 2.5 percent seems like a pretty uphill battle." Representative Trey Martinez Fischer (D-San Antonio) pointed out that San Antonio ISD could lose \$300 million over the next ten years if the bill passes as it is drafted. He said, "This proposal raises more questions than it answers." Representative Chris Turner (D-Grand Prairie), Chair of the House Democratic Caucus, also commented saying, "An arbitrary revenue cap, one that will also make it more difficult for local communities to fund public safety, is not going to solve this problem."

**GOVERNOR:**

**Next Week:** Governor Greg Abbott will deliver his State-of-the-State address to a joint session of the legislature on Tuesday, February 5, 2019.

## **BUDGET:**

### **House Appropriations Committee:**

**On Monday**, the House Appropriations Committee heard invited testimony from the Legislative Budget Board, who gave presentations on:

#### **Economic Stabilization Fund:**

2020-21 Economic Stabilization Fund Balances (January 2019 Biennial Revenue Estimate):

- Ending Balance = \$15.4 billion
- Maximum Balance = \$18.6 billion
- Sufficient Balance = \$7.5 billion

HB 1 includes \$633.0 million, or 4.1% of the projected balance, in the 2020-21 biennium:

- TRS Care - \$230.8 million
- Cancer Prevention and Research Institute of Texas - \$164.0 million
- Office of the Governor Disaster Grants - \$100.0 million
- School Safety - \$43.6 million
- Railroad Commission Oil and Gas Well Plugging - \$39.1 million
- Library and Archives State Records Expansion - \$26.6 million
- Texas Department of Criminal Justice Surveillance Systems - \$26.0 million
- General Land Office Alamo Complex - \$3.0 million

#### **House Budget Recommendations:**

**Foundation School Program** - \$52.6 billion in All Funds and \$42.0 billion in General Revenue. It:

- Fully funds current law obligations, including estimated growth in student enrollment; and
- Increases funding by \$9.0 billion over what is estimated to be required to fund current law entitlement, contingent upon legislation supporting school districts and charter schools while maintaining an equitable system of school finance by: increasing the state share of the FSP, enhancing district entitlement, decreasing recapture, and providing local tax relief.

**School Safety** - Funding for school safety programs includes an additional \$109.4 million in All Funds including:

- \$64.9 million in General Revenue;
- \$43.6 million in Other Funds from the Economic Stabilization Fund; and
- \$0.8 million in Federal Funds.

Funding is provided at the following agencies:

- \$64.5 million at the Texas Education Agency;
- \$31.2 million at Institutions of Higher Education;
- \$11.8 million at the Health and Human Services Commission;
- \$1.1 million at the Texas School for the Deaf; and
- \$0.8 million at the Texas School for the Blind and Visually Impaired.

**Retirement and Health Benefits:**

**Teacher Retirement System** - \$4.1 billion in All Funds, including \$4.1 billion in General Revenue, for the state contribution to retirement benefits; \$1.1 billion in All Funds for retiree health insurance funding; \$879.4 million in General Revenue for the statutorily required state contribution; and \$230.8 million in Other Funds from the Economic Stabilization Fund to maintain plan year 2019 TRS-Care premiums and benefits.

***Next Week:***

**House Appropriations Committee:**

**On Monday**, February 4, 2019, the House Appropriations Committee will meet at 12:00 noon in E1.030 of the capitol extension to hear invited testimony on:

- School Finance
- School Safety
- Teacher Retirement System

**PUBLIC EDUCATION:**

The **House Public Education Committee** met on Wednesday. Chairman Dan Huberty (R-Humble) welcomed new members to the committee and introduced Amy Peterson, the Committee Director. He updated the committee on some of the meetings held during the interim on Hurricane Harvey’s effect on school districts and on activities and recommendations of the Texas Commission on Public School Finance. He announced that the committee will meet on Tuesday next week to give the committee background information on school finance that he called “School Finance 101.” On Wednesday, the committee will get a briefing on the Texas Commission on Public School Finance’s report and 35 recommendations. The following week, there will be meetings on February 12<sup>th</sup> and 13<sup>th</sup> to receive invited testimony from people “who want to shoot holes in the report.” The committee will start hearing bills on February 19, 2019. Chairman Huberty said he wants a school finance reform bill to be one of the first bills passed by the House this session.

**Education Commissioner Mike Morath** provided statistics indicating Texas public schools need to improve:

- 47 percent of Texas children are Kindergarten-ready.
- 3<sup>rd</sup> grade reading and math proficiency is about 50 percent.
- 8<sup>th</sup> grade math proficiency is a little over 50 percent.
- Only 16 percent of Texas students demonstrate college readiness based on ACT and SAT scores.
- Only 55 percent of high school graduates go straight to college.

He said the public education system is improving, but it is not improving fast enough. He said that the Texas Education Agency’s (TEA’s) four priorities are to:

- Recruit, Support and Retain Teachers and Principals;
- Build a Foundation of Reading and Math;
- Connect High School to Career and College; and
- Improve Low Performing Schools.

He also discussed TEA's special education strategic plan, its safe schools budget request, and compensatory services. Commissioner Morath will attend next week's meeting to discuss the public education accountability system.

**Math Innovation Zones** – On Tuesday, Commissioner Mike Morath announced that 15 school districts and open-enrollment charter schools and one Education Service Center have been selected to launch Texas Education Agency (TEA) Math Innovation Zones for the 2019-2020 school year. Math Innovation Zones (MIZ) support school districts and open-enrollment charter schools in a high-quality implementation of blended learning programs in math. The selected school systems include:

- Atlanta Independent School District;
- Brooks Academies of Texas (San Antonio);
- Clarendon Consolidated Independent School District and Education Service Center Region 16 (Amarillo);
- Edcouch-Elsa Independent School District;
- El Paso Independent School District;
- Inspired Vision Academy (Dallas);
- Iraan-Sheffield Independent School District;
- Laredo Independent School District (Cigarroa Middle School Feeder Pattern);
- Magnolia Independent School District;
- Marshall Independent School District;
- Sinton Independent School District;
- Spring Independent School District;
- Temple Independent School District;
- UT Tyler University Academy; and
- Winters Independent School District.

Commissioner Morath said, "Blended learning is an innovative instructional model that combines face-to-face instruction with online learning and, when implemented effectively, has led to strong academic gains in Texas schools. MIZ supports school districts and open-enrollment charter schools in a quality implementation of this model by establishing a network of proven service providers, building a district-friendly roadmap for strategic program design and implementation and granting funds to committed districts for planning and execution of the program. With blended learning, teachers can diagnose prior student knowledge, create differentiated academic plans for each student and adjust those plans in real-time based on instant feedback. By implementing this approach through a kindergarten through eighth grade feeder pattern, our teachers are able to better prepare our students for Algebra I readiness in the eighth grade." All 2019-2020 MIZ Districts received a planning grant to assist in the planning of MIZ in the spring of 2019. All 2019-2020 grantees that fulfill the planning requirements for MIZ will receive an additional grant to implement the program in the fall of 2019.

**Class Size Limits** – On Monday, Representative Jonathan Stickland (R-Bedford) announced **HB 1133**, which would allow local independent school districts (ISDs) to have a campus-wide classroom average of 22 students (current law requires no more than 22 students per class). Representative Stickland said, “This bill repeals a burdensome and unfunded mandate. We've got to allow our local ISDs to use dollars and resources as they see fit. Placing unfunded mandates on ISDs ties the hands of our schools and sends the message that legislators in Austin know how to use their resources better than they do. We must return to trusting our local educators on the best way to use their resources. That is why we have filed HB 1133.”

**Next Week:** The **House Public Education Committee** will meet on **Tuesday, February 5, 2019** upon adjournment of the House in E2.036 of the capitol extension to hear invited testimony from the Legislative Budget Board and the Texas Education Agency on the public school finance system. The House Public Education Committee will also meet on **Wednesday, February 6, 2019** upon adjournment in the same location to hear invited testimony on the final report of the Texas Commission on Public School Finance.

**TAX:**

**SB 2** by Paul Bettencourt (R-Houston) and **HB 2** by Dustin Burrows (R-Lubbock) would be the **Property Tax Reform & Relief Act of 2019**. It has five main goals:

1. Lower the rollback rate from 8 percent to 2.5 percent for taxing units that collect more than \$15 million in tax revenues and establish election notice requirements based on whether a school district will or will not exceed a 2.5% rollback rate for Maintenance and Operation property tax.
2. Require an automatic tax ratification election in November if the rollback rate is exceeded in a taxing unit.
3. Create a property tax administrative advisory board that recommends improvements to the effectiveness and efficiency of the property tax system, best practices and complaint resolution procedures.
4. Make information about the tax rates proposed by local taxing units available online with a, "real time tax rate notice", for taxpayers and define easy to understand, "no new revenue tax rate", limits for the public.
5. Reform the appraisal process on appraisal review board (ARB) hearings, ARB votes, and require all appraisal districts to follow appraisal manuals issued by the Texas Comptroller for better transparency, accountability, and consistency.

This summary of SB 2 (and also HB 2) was provided by Senator Paul Bettencourt's office:

**Changes Relating to the Tax Rate Process:**

For taxing units that collect more than \$15 million in tax revenue annually, it:

- Lowers the rollback tax rate from the current 8% to 2.5%.

- Requires an automatic ratification election if a taxing unit adopts a tax rate that exceeds the rollback rate, eliminating the petition requirement in current statute.
- Requires rollback elections to be held on the uniform November election date and adjusts the property tax calendar accordingly.

For taxing units that collect no more than \$15 million in tax revenue annually, it:

- Retains the current 8% rollback rate.
- Renames the effective tax rate as the "No-New-Revenue tax rate" so that property owners and local elected officials can better understand and utilize the tax rate as a benchmark for evaluating the tax rates proposed by local taxing units.
- The No-New-Revenue tax rate is last year's tax rate, adjusted for changes in taxable value. The No-New-Revenue tax rate takes into account all property on the tax roll of a taxing unit both last year and this year.
- A proposed tax rate that is greater than the No-New-Revenue tax rate represents a tax increase.

The "Real-Time Tax Rate notice" is established to inform property owners of the tax rates proposed by their local taxing units for their property. The Real-Time Tax Rate notice:

- Is analogous to the notice of appraised value that property owners receive each spring under current law.
- Will be available at a website that allows property owners to enter their address and then view a tax rate notice customized to their property.
- The notice will display each taxing unit in which the property is located, as well as the proposed tax rate, No-New-Revenue tax rate and rollback tax rate for each taxing unit.
- The notice will also display the taxable value of the property and will calculate the amount of property tax that would be imposed on the property at the proposed tax rate, the No-New-Revenue tax rate and the rollback tax rate.
- It will provide an email address for each local government within which a property is located so that property owners can express their support or opposition for the tax rates proposed by those local governments.
- It will be available online in time for property owners to express their support or opposition for the proposed tax rates before those rates are adopted.
- It establishes an "office of tax rate notices" in each county and places responsibility on that office for publishing the real-time tax rate notice and for maintaining the real-time tax rate database that populates the notice.
- It revises and reformats the tax notice required by Tax Code § 26.06 to increase the understandability and usefulness of the notice to taxpayers. For example, the notice will: clearly state whether or not the proposed tax rate represents a tax increase, depending on whether or not the proposed tax rate is greater than the No-New-Revenue tax rate; clearly state whether or not a rollback election will be held if the taxing unit adopts the proposed tax rate; and display a table comparing, both in dollar values

and percentage change, the property tax on the average homestead in the taxing unit last year to the property tax that would be imposed on the average homestead in the taxing unit this year at the proposed tax rate and the No-New-Revenue tax rate, so that property owners can clearly see whether the proposed tax rate represents a tax increase or decrease and the magnitude of the change.

Adopting a Tax Rate – It prohibits a taxing unit from adopting a tax rate:

- Before the taxing unit has certified the accuracy of the No-New-Revenue tax rate and rollback tax rate calculations;
- Before a taxing unit that imposes an additional sales tax for property tax relief has certified that the sales tax revenue has been applied to reduce the debt component of the taxing unit's property tax rate;
- Until the 14th day after the taxing unit has submitted the information required for the real-time tax rate notice to the office of tax rate notices;
- Before the office of tax rate notices has delivered the real-time tax rate notice; or
- Before the taxing unit has published the tax rate and budget information required by Tax Code § 26.18 on the county's website.

Electronic Forms – It requires all taxing units to use electronic forms promulgated by the Texas Comptroller to calculate the No-New-Revenue tax rate and the rollback tax rate in order to:

- Increase accuracy and uniformity in the calculations.
- Facilitate publication of the worksheets and promote transparency.

Worksheets – It requires the No-New-Revenue tax rate and rollback tax rate worksheets of each taxing unit to be published:

- As part of the truth-in-taxation notice required by Tax Code § 26.16;
- As an appendix to the taxing unit's budget; and
- On the taxing unit's website.

Anticipated Collection Rate – It prohibits a taxing unit from reducing its anticipated collection rate to 100% in calculating the No-New-Revenue tax rate, if the anticipated collection rate exceeds 100%.

Failure to Comply – It allows a property owner to enjoin the collection of taxes by a taxing unit that fails to comply with the computation, publication or posting requirements of Tax Code §§ 26.04, 26.16, 26.17 or 26.18.

Remedies – It strengthens the remedies available to a property owner if a taxing unit fails to comply with the notice requirements of Tax Code §§ 26.04 and 26.05. Remedies include an injunction, the right to delay the payment of taxes, a refund of taxes already paid, reasonable attorney's fees and court costs.

Websites Required – It requires each county to maintain an Internet website for purposes of publishing the truth-in-taxation notice required by Tax Code § 26.16. It requires each taxing unit to maintain an Internet website for purposes of the publishing the tax rate, budget, public hearing and contact information required by Tax Code §§ 26.04(e), 26.05(b), 26.062 and 26.18.

**Changes relating to the appraisal process:**

- Establishes special ARB panels in counties with a population of 1,000,000 or more to hear protests related to commercial, industrial, utility and multi-family property.
- Clarifies that a majority vote by ARB members is binding for decisions and thus prohibits ARB panels from requiring a unanimous vote.
- Eliminates challenges by local governments to the value of an entire category of properties before an appraisal review board.
- Eliminates Sunday ARB hearings and requires evening hearings to be scheduled to begin between 5 pm and 7 pm.
- Sets the statutory deadline for filing all property tax protests to May 15, thereby eliminating confusion for owners of multiple types of property.
- Requires all appraisal districts to follow appraisal manuals issued by the Texas Comptroller to promote more transparent, accountable and consistent appraisals statewide.

**Changes relating to both the tax rate process and the appraisal process:**

- Creates a Property Tax Administration Advisory Board in the Texas Comptroller's office to oversee the entire property tax process.

**Changes relating to both the rollback tax rate calculation and ballot language for ISD's:**

- Adjusts the school district rollback tax rate calculation to reflect the 2.5% revenue cap recommendation in the Public School Finance Commission Report.
- Modifies the required ballot language if an election is required, due to a district wishing to exceed the 2.5% revenue increase.

**Next Week:** Chairman Paul Bettencourt announced that the Senate Property Tax Committee will start hearings on SB 2 on Wednesday, February 6, 2019 at 8:00 a.m., but the hearing has not yet been posted.