Representative: Desk:

Conference Committee Report Analysis for Senate Bill 2
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Author: Sen. Paul Bettencourt Sponsor: Rep. Dustin Burrows
Committee: Ways & Means
Recommendation: Unfavorable

CCR SB 2 Evaluated By: Eliot Davis
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The Conference Committee Report (CCR) for SB 2 would further **limit local taxing entities'** ability to raise tax revenue without voter approval.

- The Conference Committee maintained the revenue increase cap at **3.5% over the previous year, before triggering a mandatory election** for taxing units, with the exceptions of hospital districts, community college districts and units with less than 2.5% Maintenance and Operation (M&O) rate. Currently, exceeding the 8% cap rate would require voters to petition for a rollback election.
- **School districts** would be **held to a 2.5 % revenue growth cap,** replacing the current 4-cent cap.
- **A favorable House amendment that brought the City of Houston under the SB2 limits instead if the existing city revenue cap was eliminated** by the Conference Committee**.**
- New development construction is still exempted, as are hospital districts, community college districts, special districts within declared disaster areas and small taxing units (tax units with less than 30k in population).
- The CCR also includes a provision intended to **prohibit a local government from enacting a pay cut for a first responder** in response to budgetary limitations that could result from the 3.5% revenue cap.
- The House-passed CSSB 2 provided for adjustment to the revenue formulas to recover revenue lost to **local-option** homestead exemptions (e.g., for seniors and individuals with disabilities). The Conference Committee **removed** this credit.
- The conference committee version also **limits the unused increment formula** consideration to three years (the amount of tax revenue that would have been made had the unit set a maximum allowable tax rate, minus actual revenue). This weakens the intended incentive for fiscal conservancy through lower rates as taxing units would no longer have the ability to leverage the full five prior years' worth of untapped revenue, especially in cases of disaster or for unforeseen expenses.

Serious concerns have been expressed by local officials regarding the **potential reduction in local services that could result from a 3.5% revenue cap, services that are essential** to support a growing population and expanding economy.

Local officials have warned that a 3.5% cap is not sufficient to cover fixed costs of the existing needs including public safety, road maintenance and improvements, parks, libraries, and other basic services. These critical and essential expenditures are necessary to ensure quality of life, not to mention attract and retain businesses and viable jobs. And, the new CCR provision prohibiting pay cuts for public safety personnel takes a huge chunk of the budget for cities and counties off the table.

While water districts not in developed districts would be exempt, and first responder compensation rates would be protected temporarily for 2020, this will inevitably lead to cuts to other essential services and infrastructure, as well as potential job loss and negative economic implications. Houston provides a recent example of how a revenue cap can have bad consequences, and especially when it is coupled with mandatory, not to mention costly elections. In 2004, voters approved cap that is the lower of either 4.5% of the combined rate of population growth and inflation. The cap was revised in 2006 to fund an additional $90 Million for public safety. Since then, as property values increased, the city has had to decrease tax rates to adhere to the formula. Meanwhile, last year, voters approved a "pay parity" proposition that requires the city to pay firefighters and police at the same rate, which would require revenue not available under the revenue cap.

SB2 also includes administrative and review requirements to increase transparency, accountability, and credibility. SB2 would require the comptroller to review and verify all rates as well as prescribe appraisal manuals to increase consistency in methods and techniques. It establishes training requirements and qualifications for Appraisal Review Boards (ARB) members. The bill defines the 'no-new-revenue rate'

OK for Distribution – Rep Garnet Coleman (formerly 'effective rate') and 'voter-approved rate' (formerly 'rollback rate'), as well as respective formulas.

SB 2 separates the appraisal notice process from the tax-setting process and increased accessibility and frequency of communication. The bill would also create a Property Tax Administration Advisory Board under the Comptroller and would additionally require each Central Appraisal District (CAD) to maintain a "real-time tax database." The resolved bill does remove House provisions regarding Appraisal District Board of Director eligibility.

Additionally, despite suggestions otherwise that HB 1, SB 2, and HB 3 are all intertwined and would all need to pass as a package to work is false. HB 1 and HB 3 work together to provide real increases to our public education funding, and property tax relief. HB 1 and HB 3 are in no way dependent on the passage of SB 2.

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