



# Texas Legislative Study Group

*An Official Caucus of the Texas House of Representatives*

## LSG Analysis for HB 1

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**Committee:** Ways & Means — 9 Ayes, 0 Nays, 0 PNV, 2 Absent

### Recommendation: Will of the House

#### **Background**

During the 88th Regular Session, three mechanisms of property tax relief were debated — increasing the homestead exemption, reducing the appraisal cap, and compressing the tax rate. Tax rate compression reduces a taxing unit's tax rate. The 86(R) HB 3 required all school districts to reduce their maintenance and operations taxes to \$0.93 per \$100 of property value down from \$1.00 per \$100 in fiscal year 2020. After 2021, future compression (or reduction) is based on property value growth. If property values rise, the tax rate will decrease, although no individual district can lower its tax rate to more than 10 percent below that of the highest-taxing school district.

#### **House Bill 1**

**HB 1 includes \$12.4 billion to reduce a school district's maximum compressed rate by an additional 16.2 cents** (HB 2 of the 88th Regular Session reduced the maximum compressed rate by an additional 15 cents). Reducing school districts' maximum compressed rate by an additional \$0.162 accelerates the compression already occurring, with no positive or negative net impact on schools. Because school tax rates will be lowered, less revenue will be collected, meaning that every recapture district would pay less into recapture.

Tax rate compression shifts the burden of funding schools from local taxpayers to the state. By reducing a district's tax rate and its revenue, the state has to make up the difference in lost revenue to school districts. HB 1's rate compression does not hurt or help schools; they still receive their entitlements and come out revenue-neutral.

#### **Impact**

The benefits of a rate cut would likely benefit higher-income families and businesses the most. Because tax rates are based on a percentage of the appraised value, property owners with the highest-valued homes gain the most benefit. A rate cut would also benefit businesses, which pay just over half of school property taxes. However, because businesses can adjust their practices, including changing prices and wages to increase profits, it is not certain that a boon to businesses would benefit their workers.

There are concerns about the sustainability of ongoing property tax cuts and shifting the burden of funding schools without increasing funding. There are also concerns that tax compression creates tax rate inequities among school districts since faster-growing districts can get their full school-finance entitlement at a lower tax rate than slower-growing districts.