

SUBJECT: Further compression of school district property tax rates

COMMITTEE: Public Education — favorable, without amendment

VOTE: 6 ayes — Eissler, Zedler, Branch, Delisi, Mowery, Patrick
2 nays — Hochberg, Olivo
1 absent — Dutton

WITNESSES: For — Byron Schlomach, Texas Public Policy Foundation; (Registered, but did not testify: Tom Alred, April Brown, Texas Conservative Coalition; June Deadrick, Center Point Energy; Talmadge Heflin, Texas Public Policy Foundation; Lance Lively, National Federation of Independent Business)

Against — Dick Lavine, Center for Public Policy Priorities; Wayne Pierce, Equity Center; Ted Melina Raab, Texas Federation of Teachers

BACKGROUND: HB 1 by Chisum, 79th Legislature, third called session, provided state aid to school districts by reducing maintenance and operations (M&O) property taxes. Districts compute their reduced M&O tax rates according to a "state compression percentage" of 66.67 percent of their 2005 tax rate in fiscal 2008. This tax rate is set in statute to expire on September 1, 2009.

Beginning in fiscal 2009, the Texas Education Agency (TEA) will determine the state compression percentage based on appropriations from the property tax relief fund established by HB 2 by Pitts, 79th Legislature, Third Called Session, or other funding for this purpose.

DIGEST: HB 2785 would increase the school district M&O tax compression rate from 66.67 to 60.67 percent of the district's 2005 tax rate. It also would repeal the current expiration date for the new tax rate of September 1, 2009.

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, 2007.

**SUPPORTERS
SAY:**

HB 2785 would make use of the record state surplus by providing additional property tax relief. Both the House and the Senate have approved budgets that leave at least \$3 billion in general revenue unspent, plus another \$4 billion in the rainy day fund. This money should be returned to taxpayers in the form of additional property tax relief instead of being left on the table.

The property tax cut authorized in HB 1, 79th Legislature, third called session is barely sufficient to keep up with increases in local property tax appraisals. HB 2785 would ensure genuine tax relief for Texans.

**OPPONENTS
SAY:**

Further tax cuts would cripple our state's ability to pay for essential services such as education and health care. The state should not spend every bit of extra money to further reduce property taxes when so many other pressing needs have not been met. The additional school tax compression in HB 2785 would cost \$2.5 billion in fiscal 2008-09 alone and continue to cost the state budget in future years, with none of this money benefiting public education, only replacing local funding with state money.

The new taxes enacted in 2006 cover less than half of the cost of tax cuts from the special session. General revenue was used to cover part of the tax cut in HB 2 by Chisum, which provided \$14.1 billion in state aid to school districts to replace local property tax revenue. The state already is diverting funds from its historically inadequate general revenue stream to fund the current tax cut, and to cut property taxes even further would be irresponsible.

NOTES:

The fiscal note to HB 2785 indicates that the cost of the property tax reduction to 60.67 percent of a school district's 2005 tax rate would be \$2,528,000,000 in fiscal 2008-09.