

BILL ANALYSIS

C.S.H.B. 1
By: Chisum
Ways & Means
Committee Report (Substituted)

BACKGROUND AND PURPOSE

The Texas Supreme Court held in *Neeley v. West Orange-Cove CISD*, that the state school finance system relies on revenues derived from a tax that, in effect, is a state property tax prohibited by the Texas Constitution. The court required the legislature to correct the constitutional violation by June 1, 2006.

The purpose of this bill is to correct the constitutional violation by providing significant additional state revenue to fund the public school system and enable school districts to exercise meaningful discretion in setting local property tax rates.

RULEMAKING AUTHORITY

It is the committee's opinion that rulemaking authority is expressly granted to the Commissioner of Education in SECTION 1.02 and in SECTION 1.07 of this bill.

ANALYSIS

SECTION 1.01 of the bill, amends Section 41.093, Education Code, to exclude from recapture under the school finance system any maintenance and operations (M&O) tax revenue resulting from the portion of a district's M&O tax rate that exceeds \$1.33 on the \$100 valuation of taxable property.

SECTION 1.02 of the bill, adds Section 42.2516, Education Code, to provide "hold harmless" aid to school districts. This additional state aid for tax reduction from the results of property tax rate compression ensures that each district receives at least the amount of revenue per student that the district would have received during the 2006-2007 school year if property tax rates had not been compressed and sets out methods for determining the amount of money to which a district would be entitled. The Commissioner of Education may adopt rules necessary to administer this section and shall determine the amount of state funds to which each district is entitled. The Commissioner's determination is final and non-appealable.

SECTION 1.02 of the bill, also adds Section 42.261, Education Code, to define fiscal characteristics of funds appropriated under Section 42.2516 and states that the funds among other things may not be used for purposes not related to the reduction of the district's M&O tax rate. The Commissioner of Education may adopt rules necessary to administer this section.

SECTION 1.03 of the bill, adds Section 42.302(f), Education Code, to provide that a district that adopts an M&O tax rate greater than the rate equal to 88.67% of the M&O tax rate adopted by the district for the 2005 tax year is entitled to receive an allotment under Section 42.302, Education Code, on the basis of that greater tax effort.

SECTION 1.04 of the bill, amends Section 21.402(a), Education Code, to modify formula provisions that determine the state minimum salary schedule for teachers and certain other professional school employees, as necessary to account for the tax rate compression in the bill.

SECTION 1.05 of the bill, adds Section 30.003(f-1), Education Code, to provide that the Texas School for the Blind and Visually Impaired and the Texas School for the Deaf are entitled to direct payments from the foundation school fund to compensate those schools for reduced revenue received from school districts as a result of tax rate compression required in the bill.

The amount of funds is set aside in a separate account in the foundation school fund and is appropriated to both schools for educational purposes.

SECTION 1.06 of the bill, amends Section 26.08, Tax Code, to describe the effective M&O tax rate of a school district and sets out the rollback tax rates for school districts. In addition, school districts permitted by special law to impose an M&O tax at a rate greater than \$1.50 per \$100 of taxable value, notwithstanding its special law, are prohibited from increasing its M&O rate by more than 17 cents above its 2006 compressed rates.

SECTION 1.07 of the bill, adds Section 31.01(k), Tax Code, to require that the 2006 school district tax bill or statement include information about the amount of property tax relief provided to the taxpayer as a result of this bill. The Commissioner of Education, with any necessary assistance from the Legislative Budget Board, may adopt rules to implement this provision.

SECTION 1.08 of the bill, adds Section 311.013(n), Tax Code, to provide a mechanism for ensuring that school districts participating in reinvestment zones maintain the required level of payments into associated tax increment funds, regardless of compressed property tax rates, while not exceeding the amount the district realizes from reduction in the district's taxable value under Section 403.302(d)(5), Government Code.

SECTION 1.09 of the bill, amends Section 403.302, Government Code, to modify the definition of "taxable value" and to adjust a school district's taxable value of property in the amount necessary to offset the payments into a tax increment fund that are required by amended Section 311.013, Tax Code.

SECTION 2.01 appropriates \$2,385,800,000 to the Texas Education Agency for distribution to school districts in accordance with Chapters 41 and 42, Education Code, as amended by the bill.

SECTION 2.02 Repeals Rider 97 following the appropriations to the Texas Education Agency in Chapter 1369, Acts of the 79th Legislature, Regular Session, 2005 (The General Appropriations Act) as amended by Chapter 2, Acts of the 79th Legislature, 1st Called Session, 2005.

SECTION 3.01 provides that the bill applies beginning with the 2006-2007 school year.

SECTION 3.02 provides that the bill takes effect immediately if it receives a two-thirds vote in each house of the legislature. If the bill does not receive that vote, the bill takes effect on the 91st day after the last day of the legislative session.

EFFECTIVE DATE

The bill takes effect immediately if it receives a two-thirds vote in each house of the legislature. If the bill does not receive that vote, the bill takes effect on the 91st day after the last day of the legislative session. The bill applies beginning with the 2006-2007 school year.

COMPARISON OF ORIGINAL TO SUBSTITUTE

The substitute removes language from the original bill which required districts seeking M&O tax rate increases at a certain higher amount to receive voter approval by a two-thirds majority of the voters voting in the election held for that purpose. The bill increases the rollback tax rate from \$1.33 to \$1.36 of taxable value for certain school districts.

The substitute also includes the rate of \$0.03 per \$100 of taxable value in the formula for determining the 2006 tax rate for school districts permitted by special law to tax at a rate greater than \$1.50 per \$100 of taxable value.

The substitute repeals Rider 97 as referenced in new SECTION 2.02 and clarifies the amount of the appropriation to TEA for FY 2007 to be \$2,385,800,000.