



SB 1161

Accounting for Chapter 313 Limitations in Determining the Total Taxable Value of Property in a School District

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Purpose

SB 1161 would account for 50 percent of the limited property value under a Chapter 313 agreement in determining the total taxable value of property within a school district.

Background

Chapter 313 of the Texas Tax Code allows school districts to reduce the amount of property taxes paid by favored businesses that locate or expand within the district's geographic boundaries by limiting the taxable value of their property. To consider a value limitation agreement, school districts receive a substantial application fee from the business requesting the value limitation. Many districts receive payments in lieu of taxes in return for reducing the property tax burden of a business.

The total taxable value of property in a school district results in designation as a property-wealthy district under Chapter 41 of the Texas Education Code or a property-poor district under Chapter 42 of the Texas Education Code. Chapter 41 districts are subject to the "Robin Hood" rule, under which wealth is equalized to help the state fund poorer districts. Under current law, any limitation of property value under a Chapter 313 agreement is not considered when determining the total taxable value of property in the district, nor in calculating the amount of tax dollars to be recaptured for equalization. Other components of the Chapter 313 value limitation agreements, such as payments

in lieu of taxes and application fees, are also excluded from this calculation.

Analysis

Since its creation, Chapter 313 has generated 509 total value limitation agreements. Of those agreements, 327 (64 percent) involve property wealthy districts. Wealthy districts negotiated significantly more agreements on average than their property-poor counterparts. The foregone tax revenue is excluded from wealth equalization, resulting in fewer dollars contributed to poorer districts—those districts that already benefit significantly less from the Chapter 313 program—and resultant effects on state finances. The foregone tax revenue is often recovered locally, at least in part, in the form of payments in lieu of taxes and other fees that might otherwise have been recaptured under the school finance formula. When the Chapter 313 program functions in concert with Robin Hood, it incentivizes local decisions that have negative statewide effects. SB 1161 would mitigate those effects while still retaining some of the local benefits.

Recommendations

This bill reduces the disparate benefit property-wealthy districts receive under Chapter 313 of the Tax Code. Using the program to reduce the amount of recaptured funds while still receiving payments in forms not subject to recapture will not benefit state finances and school districts across Texas. This reform should be complemented by considerations of alternative revenue streams (e.g., payments in lieu of taxes) in the wealth equalization calculus. ★

