

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 79TH LEGISLATURE 3rd CALLED SESSION - 2006**

**April 24, 2006**

**TO:** Honorable Steve Ogden, Chair, Senate Committee on Finance

**FROM:** John S. O'Brien, Deputy Director, Legislative Budget Board

**IN RE: SB17** by Barrientos (Relating to increasing the minimum amount of the local option residence homestead exemption from ad valorem taxation by a taxing unit.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for SB17, As Introduced: an impact of \$0 through the biennium ending August 31, 2007.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

**General Revenue-Related Funds, Five-Year Impact:**

<b>Fiscal Year</b>	<b>Probable Net Positive/(Negative) Impact to General Revenue Related Funds</b>
2007	\$0
2008	\$0
2009	\$0
2010	\$0
2011	\$0

**All Funds, Five-Year Impact:**

<b>Fiscal Year</b>	<b>Probable Revenue Gain/(Loss) from School Districts</b>
2007	(\$41,361,000)
2008	(\$42,831,000)
2009	(\$44,354,000)
2010	(\$45,933,000)
2011	(\$47,430,000)

**Fiscal Analysis**

This bill would amend Section 11.13 of the Tax Code to increase the minimum dollar amount of a local option percentage homestead exemption from \$5,000 to \$15,000.

Taxing units are currently allowed to adopt a local option homestead exemption, not to exceed 20 percent of a homestead's appraised value. However, the amount of the exemption may not be less than \$5,000.

The bill would take effect January 1, 2007, contingent upon passage of a constitutional amendment to be submitted to voters at an election to be held November 7, 2006.

## **Methodology**

The bill would increase the minimum amount of a percentage optional homestead exemption from \$5,000 to \$15,000 (an additional \$10,000).

Homesteads valued at less than \$75,000 (or a proportionately lower amount if less than 20 percent is granted) in taxing units granting the optional percentage exemption would receive a larger exemption under this proposal. Some low-value residences are appraised at less than \$75,000, so the entire amount of the new exemption would not be absorbed. The gross amount of the additional homestead exemption (including taxpayers subject to the tax ceiling), was multiplied by an absorption factor and then factored downward to account for the number of homes valued at less than \$75,000 to estimate the net value loss to the additional exemption. The value loss was trended through the projection period, and trended school district rates were applied to estimate the cost of the exemption.

## **Local Government Impact**

Assuming residences that currently are eligible for a \$5,000 homestead exemption would each become eligible for a \$15,000 exemption under the provisions of the bill and assuming no change in current appraised values of the residences, local taxing authorities would experience a revenue loss. The loss would vary by taxing entity. According to the Harris County Chief Appraiser, as an example of the fiscal impact in the first year of implementation, Harris County (2000 census population of 3.4 million) would have a revenue loss of more than \$1.3 million; the City of Houston (2000 census population of almost two million) would experience a loss of nearly \$1.5 million; and the Houston Independent School District would lose approximately \$3.0 million. Smaller taxing entities would also experience a revenue loss: for example, the City of Pasadena (2000 census pop. 141,674) would lose \$278,936 in revenue; the City of Katy (2000 census pop. 11,775) would see a loss of \$3,372. Various municipal utility districts and community college districts also would experience revenue losses proportionate to the number of homesteads in the districts and the districts' tax rate.

It is anticipated that similar revenue losses would occur statewide.

**Source Agencies:** 304 Comptroller of Public Accounts

**LBB Staff:** JOB, SD, SJS, DLBa