

LEGISLATIVE BUDGET BOARD

Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

Revision 1

April 14, 2009

TO: Honorable Rene Oliveira, Chair, House Committee on Ways & Means

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

IN RE: HB637 by Guillen (Relating to the authority of the governing body of a taxing unit to adopt a local option residence homestead exemption from ad valorem taxation of not less than \$5,000 or more than \$30,000.), **Committee Report 1st House, Substituted**

No fiscal implication to the State is anticipated, contingent upon the adoption of a constitutional amendment similar to the language proposed in CSHJR 40.

The bill would amend Chapter 11 of the Tax Code to allow taxing units to adopt a local option residence homestead exemption from ad valorem taxation of at least \$5,000 and not more than \$30,000. This would be in lieu of the percentage local option exemption, which may not exceed 20 percent.

The bill would amend Section 42.2516(f-1) of the Education Code to require the Commissioner of Education to adjust school district tax collections only for an optional percentage homestead exemption.

The bill would amend Section 403.302 (d)(2) of the Government Code to require the Comptroller to deduct only the optional percentage homestead exemption and not an optional exemption of a set amount in the property value study.

Currently, taxing units are allowed to adopt optional percentage homestead exemptions but can not adopt homestead exemptions of a set amount. Contingent on the adoption of a constitutional amendment, the bill would allow a taxing unit to adopt a homestead exemption of a set amount (from \$5,000 to \$30,000), but would not allow a taxing unit to adopt both a percentage exemption and an exemption of a set amount.

Current school finance formulas provide for facilities and enrichment funding for one-half of the optional exemptions to the extent funds are available. The bill, however, would specify that the Comptroller deduct only the percentage optional exemption and not the proposed optional exemption of a set amount up to \$30,000 in the Property Value Study. As a result, the proposed bill would not cause a state fiscal impact on facilities and enrichment funding.

The constitutional amendment, proposed in CSHJR 40, would prohibit the legislature from providing formulas to protect school districts from revenue losses incurred as a result of the new optional exemption. According to the Comptroller of Public Accounts, the provision of the bill that would not allow the commissioner of education to adjust school district tax collections to offset any increase in state hold harmless payments caused by the collections loss to the new optional exemption appears to conflict with the constitutional amendment. This analysis assumes that language in CSHJR 40 would prevail.

The bill would be effective January 1, 2010, contingent on the adoption of a constitutional amendment which would be submitted to voters at an election to be held November 3, 2009.

Local Government Impact

An exempt amount of \$30,000 could exceed the amount exempted by the current percentage homestead exemption in some local taxing units. To the extent that these local taxing units switch from the percentage homestead exemption to the new exemption or adopt the new exemption for the first time in lieu of the percentage exemption, the proposed bill would create a cost to local taxing units. The future actions of local taxing units cannot be predicted; therefore, the bill's fiscal impact cannot be determined. The fiscal implication to units of local government is contingent upon passage of a constitutional amendment authorizing the exemption.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, MN, SD, SJS