

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

March 10, 2009

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

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

IN RE: HB1037 by Paxton (Relating to allowing persons acquiring a new residence homestead to receive an ad valorem tax exemption on the homestead in the year in which the property is acquired.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1037, As Introduced: a negative impact of (\$11,473,000) through the biennium ending August 31, 2011.

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:

| Fiscal Year | Probable Net Positive/(Negative) Impact to General Revenue Related Funds |
|-------------|--------------------------------------------------------------------------------|
| 2010 | \$0 |
| 2011 | (\$11,473,000) |
| 2012 | (\$15,224,000) |
| 2013 | (\$16,549,000) |
| 2014 | (\$17,560,000) |

All Funds, Five-Year Impact:

| Fiscal Year | Probable Savings/(Cost) from <i>Foundation School Fund</i> 193 | Probable Revenue Gain/(Loss) from <i>School Districts - Net Impact</i> |
|-------------|----------------------------------------------------------------------|---------------------------------------------------------------------------|
| 2010 | \$0 | \$0 |
| 2011 | (\$11,473,000) | (\$3,818,000) |
| 2012 | (\$15,224,000) | (\$3,620,000) |
| 2013 | (\$16,549,000) | (\$3,830,000) |
| 2014 | (\$17,560,000) | (\$4,176,000) |

Fiscal Analysis

The bill would amend the Tax Code to allow persons qualifying for a residence homestead on which they were granted an exemption based on disability or age 65-and-over to also qualify for the entire year for any other homestead exemptions provided by Section 11.13 of the Tax Code for which they are eligible.

The bill would also provide for a prorated exemption of the standard (age under 65/non-disabled) homestead exemptions if the property was acquired during the year and had not formerly qualified during the tax year for a homestead exemption. If the property ceased to qualify for the exemption during the same tax year, the proration formula would provide that the exemption be based only on the days that the property was qualified and not for the remainder of the year.

The bill would be effective January 1, 2010, and would only apply to a homestead residence acquired on or after that date.

Methodology

Currently, taxpayers who acquire a residence homestead and are eligible for age 65-and-over or disabled exemptions must wait until the January 1 of the following year to become eligible for the standard \$15,000 school district homestead exemption and any local optional percentage exemptions.

The bill would make these exemptions available immediately after acquisition of the homestead, creating a cost to school districts and the state. This provision would create a similar cost for other taxing units that grant optional exemptions, but this cost could not be estimated.

Information from appraisal districts and the Real Estate Center at Texas A&M University was used to project home sales to age 65-and-over or disabled homeowners. The value loss to homestead exemptions retroactive to the beginning of the year for age 65-and-over or disabled homeowners was estimated by multiplying the number of age 65-and-over or disabled homeowners by the average exemption value.

The bill would also change current law by prorating exemptions for age under 65 and non-disabled homestead owners, creating a loss for school districts and the state. This provision would create a similar cost for other taxing units that grant optional exemptions, but this cost could not be estimated.

Information from appraisal districts and the Real Estate Center at Texas A&M University was used to project home sales to age under 65 and non-disabled taxpayers. Based on this information the value loss to prorated exemptions was estimated and added to the value loss for age 65-and-over or disabled homeowners.

By making homestead exemptions available one year earlier than under current law for age 65-and-over or disabled homeowners, the bill would also make the 10 percent limitation on homestead appraised value increases applicable one year earlier than under current law for the affected homesteads, creating a cost to school districts and to the state. This provision would create a similar cost for other taxing units, but this cost could not be estimated.

Because of the operation of the hold harmless provisions of HB 1, 79th Legislature, Third Called Session (2006), the portion of the cost related to school district compressed rates is transferred to the state. A portion of the school districts' debt (facilities funding) and enrichment costs are also transferred to the state after a one-year lag because of the operation of the funding formulas. All costs were estimated over the five year projection period.

The bill is estimated to have an impact on the state aid districts receive based on the enrichment tier as tied to the yield of the Austin Independent School District (ISD). To the extent that the bill has the effect of lessening Austin ISD's revenue per weighted student per penny of tax effort, as determined by the Commissioner of Education, the growth of the equalized yield on those enrichment pennies would slow, resulting in slower growth in state aid.

Local Government Impact

The fiscal implication to the state and school districts is reflected in the above table. Other taxing units would incur similar costs.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, MN, SD, SJS