

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION

April 5, 2011

TO: Honorable Rob Eissler, Chair, House Committee on Public Education

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

IN RE: HB2484 by Hochberg (Relating to the state property tax compression percentage and the homestead property tax exemption under the public school finance system.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2484, As Introduced: a negative impact of (\$1,165,928,275) through the biennium ending August 31, 2013.

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
2012	\$0
2013	(\$1,165,928,275)
2014	(\$1,738,292,922)
2015	(\$1,819,282,097)
2016	(\$1,899,750,786)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain/(Loss) from <i>Foundation School Fund</i> 193	Probable Savings/(Cost) from <i>Foundation School Fund</i> 193
2012	\$0	\$0
2013	(\$28,067,671)	(\$1,137,860,604)
2014	(\$118,892,258)	(\$1,619,400,664)
2015	(\$137,680,974)	(\$1,681,601,123)
2016	(\$154,106,200)	(\$1,745,644,586)

Fiscal Analysis

The bill would provide a mechanism under which the commissioner of education would be required to establish the annual state compression percentage at a level that would maintain each school district's state and local revenue per weighted student at the level attained in FY11. The bill would also serve as the enabling legislation for a constitutional amendment increasing the residence homestead exemption from \$15,000 to \$45,000 beginning in Tax Year 2012, if approved by Texas voters. There would be significant fiscal implications for the Foundation School Program under the bill.

Methodology

The bill would create a variable state compression percentage by directing the commissioner of

education to establish the percentage as necessary to maintain each district's FY11 state and local revenue per weighted student. Changes in the state compression percentage would increase or decrease the amount of local revenue used to fund Foundation School Program (FSP) entitlement at the compressed rate. Presumably if there was a shortfall in state revenue available for the FSP the compression percentage would increase in order to levy additional local maintenance and operations tax revenue. Likewise, if there was surplus state revenue in the FSP, the percentage would decline in order to reduce local maintenance and operations tax revenue to the level necessary to guarantee FY11 revenue per weighted student at the compressed rate. State cost for Foundation School Program entitlement under the bill would represent the level of resources available in any given year. As a result, no additional cost or savings to the state are anticipated due to this provision.

It is assumed for the purpose of this estimate that, as provided by the bill, the residence homestead exemption would increase from \$15,000 to \$45,000 beginning with Tax Year 2012. Increasing the exemption amount would reduce property values for Tax Year 2012 by approximately \$145 billion in Tax Year 2012 with exemption amounts increasing somewhat each year thereafter. All other things being equal, the reduction in taxable values would increase state costs under the Foundation School Program. Increased state costs would be realized beginning in FY13 when local M&O collections would decline by \$1.5 billion, resulting in additional FSP costs of \$1.14 billion and loss of \$28.0 million in recapture revenue. In FY14, loss of recapture revenue would be approximately \$119 million and additional FSP costs would rise to \$1.62 billion and would include increased costs for state aid provided through the guaranteed yield for enrichment tax effort and also through the Instructional Facilities Allotment (IFA) and Existing Debt Allotment (EDA) as the reduced property values were recognized for the purpose of calculating entitlement under these programs. Costs would continue and increase through FY16.

Local Government Impact

The mechanism requiring a variable state compression percentage could result in considerable volatility in local tax rates. Under the bill, local tax collections that serve as the proportion of local revenue used to fund FSP entitlement at the compressed rate would increase or decrease as necessary to maintain of FY11 state and local revenue per weighted student.

Increasing the homestead exemption from \$15,000 to \$45,000 would reduce the value of property subject to taxation by school districts. All other things being equal, under this scenario school districts levy loss for maintenance and operations would be approximately \$1.5 billion in FY12, increasing to approximately \$1.7 billion by FY16. Presumably, school districts would need to raise interest and sinking (I&S) rates to raise sufficient collections for the local share of debt service requirements, so no specific levy loss for I&S is estimated.

Most districts would realize additional state aid to offset a portion of the lost levy for maintenance and operations. Specifically, under the target revenue hold harmless structure, levy losses for the compressed rate would be replaced with state funds beginning in FY13. Levy losses for enrichment tax effort would begin to generate additional state aid in FY14 due to the one-year lag in the recognition of property values in the calculation of effective rates.

School districts would also realize additional state aid for facilities under the IFA and EDA programs as the reduced property values were recognized for the purpose of calculating entitlement under these programs beginning in FY14.

Source Agencies: 701 Central Education Agency

LBB Staff: JOB, LXH, JGM, JSp