LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

May 26, 2015

TO: Honorable Dan Patrick, Lieutenant Governor, Senate

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **SB1** by Nelson (Relating to an increase in the amount of the residence homestead exemption from ad valorem taxation by a school district, a reduction of the limitation on the total amount of ad valorem taxes that may be imposed by a school district on the homestead of an elderly or disabled person to reflect the increased exemption amount, and the protection of school districts against the resulting loss in state and local revenue.), **As Passed 2nd House**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1, As Passed 2nd House: a negative impact of ($1,633,268,000) through the biennium ending August 31, 2017.

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
2016	($808,668,000)
2017	($824,600,000)
2018	($843,159,000)
2019	($865,880,000)
2020	($888,416,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *Foundation School Fund* 193
2016	($808,668,000)
2017	($824,600,000)
2018	($843,159,000)
2019	($865,880,000)
2020	($888,416,000)

Fiscal Analysis

The bill would amend Chapter 11 of the Tax Code, regarding property taxation and exemptions, to increase the mandatory homestead exemption for school districts from $15,000 to $25,000 and to require that the tax limitation for taxpayers who are age 65 and older or disabled (tax ceiling) be reduced to reflect the additional exemption.

The bill would amend Chapter 25 of the Tax Code, regarding local property tax appraisal, to provide that for the 2015 tax year the chief appraiser shall prepare supplemental appraisal records that reflect a homestead exemption of $25,000.

The bill would amend Chapter 26 of the Tax Code, regarding assessment, to require school district assessors to determine the total taxable value of property based on a homestead exemption of $25,000 and to calculate two tax amounts; the first based on a 2015 homestead exemption of $15,000, and the second based on a 2015 homestead exemption of $25,000. The school district effective and rollback tax rates would be calculated based on a homestead exemption of $25,000. The school district assessor would be required to correct the 2015 tax roll for a school district to reflect the results of the election to approve the constitutional amendment proposed by SJR 1.

The bill would amend Chapter 31 of the Tax Code, regarding property tax collections, to:
1) conform the chapter to account for the new homestead exemption amount;
2) require a tax bill or separate statement to indicate that the tax bill is provisional, include a statement showing the amount of tax savings that would accrue if SJR 1 is approved by the voters, and state that a supplemental tax bill of that amount will be sent if SJR 1 is not approved; and
3) provide for calculation, delivery, and delinquency procedures related to the supplemental tax bill.

The bill would amend Chapter 33 of the Tax Code, regarding delinquency, to require the governing body of a school district to waive penalties and interest on a delinquent tax for which a supplemental tax bill is mailed.

The bill would amend Chapters 41, 42 and 46 of the Education Code, regarding equalized wealth level, the Foundation School Program, and assistance with instructional facilities and payment of existing debt, to require that the state hold school districts harmless for tax revenue losses resulting from the additional homestead exemption amount, including maintenance and operations revenue losses, and interest and sinking fund revenue losses related to existing debt. School districts would be entitled to additional state aid to the extent state aid under the current formulas does not fully reimburse them for the tax revenue losses. The Comptroller would be required to provide 2014 school district taxable values calculated as if the proposed new residence homestead exemption and reduction in tax ceilings had been in effect in tax year 2014.

The bill would prohibit a school district that has adopted an optional percentage homestead exemption for the 2014 tax year under Section 11.13(n) Tax Code from reducing or repealing the exemption for a period extending through the end of tax year 2019. The bill would also remove a prohibition that currently limits the circumstances under which the commissioner of education can recognize 50% of the value loss resulting from the optional homestead exemption for the purpose of calculating Foundation School Program entitlement.

The bill would amend Subchapter M, Chapter 403, of the Government Code, regarding the Comptroller's study of school district property values to require the Comptroller to calculate final taxable values for school districts based on the proposed new residence homestead exemption and reduction in tax ceilings.

The bill would take effect on the date the corresponding constitutional amendment (SJR 1) takes effect except that the proposed amendments to Chapters 25, 26, 31, and 33 of the Tax Code and Chapter 41 of the Education Code would take effect immediately upon enactment, assuming that the bill receives the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, these provisions would take effect on the 91st day after the last day of the legislative session. The bill would apply to each tax year that begins on or after January 1, 2015. Proposed Section 33.011(k) of the Tax Code would expire December 31, 2016, if SJR 1 takes effect. If SJR 1 is not approved by the voters, the bill has no effect.

Methodology

The bill's proposed increase in the residence homestead exemption would create a fiscal impact to the state.

The bill's provision requiring the Comptroller to calculate the school district property values to be used in school funding formulas as if the additional homestead exemption amount were implemented one year before the bill's effective date would minimize the adverse effect on school districts of using lagged year property values in the funding formulas. Further, the bill's hold harmless provision would require the state to offset any school property tax revenue losses resulting from the additional homestead exemption amount.

The bill's provision setting the residence homestead exemption amount at $25,000 would provide a $10,000 increase. The taxable value (market value after exemptions) of many homesteads is less than $10,000. Less than the full exemption amount would be required to reduce the taxable value of these properties to zero. To reflect this, the gross amount of the additional homestead exemption was multiplied by a homestead exemption absorption factor to estimate the net value loss to the additional exemption. The loss from the proposed tax ceiling reductions was included. Projected tax rates were applied through the five-year projection period to estimate the school district loss that would be transferred to the state. Because the bill would hold school districts harmless for all property tax revenue losses, including revenues from both maintenance and operations and interest and sinking fund taxes, the table above shows the combined state costs for increased formula funding and hold harmless for both maintenance and operations and interest and sinking portions of the Foundation School Program. There would be no losses to local taxing units.

For the purpose of this estimate, it is assumed that the Commissioner of Education would recognize 50% of the value loss due to the optional exemptions for tax years 2015 through 2019. Increased state cost for the Foundation School Program resulting from recognition is estimated to be $192.8 million in fiscal year 2016 and $196.0 million in fiscal year 2017, increasing to $203.4 million by fiscal year 2020.

Although the constitutional amendment in corresponding SJR 1 is self-enabling regarding the increased residence homestead exemption and would by itself create a cost to school districts and the state, it is not self-enabling regarding the provisions requiring the state to fully compensate school districts for the ad valorem tax revenue lost to the proposed increase in the homestead exemption. As a result the combined effects of SJR 1 and this bill are shown in the table above, and not in the fiscal note for SJR 1.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 701 Central Education Agency, 304 Comptroller of Public Accounts
LBB Staff: UP, KK, SD, SJS, JSp