

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

March 1, 2015

TO: Honorable Jane Nelson, Chair, Senate Committee on Finance

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: SB1 by Nelson (Relating to certain restrictions on the imposition of ad valorem taxes and to the duty of the state to reimburse certain political subdivisions for certain revenue loss.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1, As Introduced: a negative impact of (\$2,441,384,000) 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	(\$1,135,375,000)
2017	(\$1,306,009,000)
2018	(\$1,464,217,000)
2019	(\$1,620,056,000)
2020	(\$1,806,168,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from Foundation School Fund 193
2016	(\$1,135,375,000)
2017	(\$1,306,009,000)
2018	(\$1,464,217,000)
2019	(\$1,620,056,000)
2020	(\$1,806,168,000)

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 an amount

equal to 25 percent of the median market value in the current tax year of all residence homesteads in the state, and to require that tax ceilings for over-65 and disabled taxpayers be reduced to reflect the additional exemption. The Legislative Budget Board would be required to determine the median market value in the current tax year as of July 25th and publish that value in the Texas Register. For the 2015 tax year they would be required to determine and publish the median market value as of September 30th.

The bill would amend Chapter 26 of the Tax Code, regarding assessment, to require the governing body of a taxing unit to adopt a tax rate for the 2015 tax year before the later of October 31 or the 60th day after the date the certified appraisal roll is received by the taxing unit (one month later than current law). This requirement would expire on December 31, 2016.

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 that state aid under the current formulas does not fully reimburse them for the tax revenue losses. After fiscal year 2017 the hold harmless mechanism proposed under the bill would be adjusted to reflect the expiration of a hold harmless mechanism adopted in 2006.

The bill would take effect on the date the corresponding constitutional amendment (SJR 1) takes effect and would apply to each tax year that begins on or after January 1, 2015.

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 percent of the median market value of all Texas homesteads in the current year would result in an exemption of \$33,625 for tax year 2015 with state cost implications beginning in fiscal year 2016. The taxable value (market value after exemptions) of many homesteads is less than that amount. Less than the full exempt 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.

Note: Although the constitutional amendment in corresponding SJR 1 is self-enabling regarding the increased residence homestead exemption, it is not self-enabling regarding the method for calculating the median homestead value on which the exemption is based or 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 above table and not in the fiscal note for SJR 1.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts, 701 Central Education Agency

LBB Staff: UP, KK, SD, SJS, JSp