

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: SB278 by Watson (Relating to an increase in the amount of the residence homestead exemption from ad valorem taxation by a school district and the increase of the exemption amount in subsequent years to reflect inflation, 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 a disabled or elderly person to reflect the increased exemption amounts, and the protection of school districts against the resulting loss in local revenue.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB278, As Introduced: a negative impact of (\$628,600,000) through the biennium ending August 31, 2017.

The net impact to General Revenue Related Funds would increase to a negative impact of (\$1,430,518,000) in the biennium ending August 31, 2019.

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	\$0
2017	(\$628,600,000)
2018	(\$681,833,000)
2019	(\$748,685,000)
2020	(\$820,285,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from <i>Foundation School Fund</i> 193
2016	\$0
2017	(\$628,600,000)
2018	(\$681,833,000)
2019	(\$748,685,000)
2020	(\$820,285,000)

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 in tax year 2016, to require that the homestead exemption be inflation-adjusted in subsequent years, and to require that tax ceilings for over-65 and disabled taxpayers be reduced to reflect the additional exemption.

Each year after 2016 the Comptroller would be required to calculate the inflation-adjusted homestead exemption amount and publish that amount in the Texas Register not later than March 15.

The bill would amend Chapters 41 (equalized wealth level), 42 (foundation school program), and 46 (assistance with instructional facilities and payment of existing debt) of the Education Code to require that the state hold school districts harmless for all revenue losses resulting from the additional homestead exemption amount.

The bill would amend Chapter 403 of the Government Code, regarding the Comptroller of Public Accounts, to require 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.

The bill would take effect on January 1, 2016 contingent on voter approval of a constitutional amendment (SJR 21).

Methodology

The bill's proposed \$10,000 increase in the residence homestead exemption and subsequent increases for inflation would create a fiscal impact on 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 taxable value (market value after exemptions) of many homesteads is less than \$10,000. Application of the new homestead exemption would reduce the taxable value of these properties to zero without using the entire amount of the new homestead exemption. 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 of the bill's provisions that 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 combines the state hold harmless and enrichment losses into one column and shows the full cost of the reduced interest and sinking fund property tax revenue. There would be no losses to local taxing units.

Note: Although the constitutional amendment in related SJR 21 is self authorizing regarding the increased homestead exemption, the bill's provision requiring the state to fully compensate school districts for the ad valorem tax revenue lost to the proposed increase in the homestead exemption is outside the current school funding mechanisms. As a result the combined effects of SJR 21 and this bill are shown in the table below, and not in the fiscal note for SJR 21.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

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