

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATURE 1st CALLED SESSION - 2017

August 2, 2017

TO: Honorable Dennis Bonnen, Chair, House Committee on Ways & Means

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HJR21 by Darby (Proposing a constitutional amendment abolishing school district maintenance and operations ad valorem taxes.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HJR21, As Introduced: a negative impact of (\$114,369) through the biennium ending August 31, 2019; and a negative impact of (\$23,270,800,000) for the biennium ending August 31, 2021.

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
2018	(\$114,369)
2019	\$0
2020	\$0
2021	(\$23,270,800,000)
2022	(\$24,560,900,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from Foundation School Fund 193
2018	(\$114,369)
2019	\$0
2020	\$0
2021	(\$23,270,800,000)
2022	(\$24,560,900,000)

Fiscal Analysis

The resolution would amend the Constitution to prohibit, beginning on January 1, 2020, a political subdivision from levying an ad valorem tax for the purpose of maintaining an efficient system of public free schools.

This resolution would be submitted to voters at an election to be held on November 7, 2017.

Methodology

Eliminating local school district maintenance and operations (M&O) property taxes, and effectively making the maintenance and operations of school districts completely funded by the state would have a significant fiscal impact, both in terms of total entitlement generated by school districts and charter schools under the Foundation School Program, and in terms of the total amount of state aid which would be required under the provisions of the bill.

For the purpose of this analysis, and assuming no further statutory change, the following effects to the Foundation School Program were assumed to result from eliminating local school district M&O property taxes: 1) the effective elimination of the Tier 1 local share as governed by Section 42.252 of the Education Code; 2) the effective elimination of recapture revenue and the effect of all wealth equalization provisions of Chapter 41 of the Education Code; 3) the effective elimination of Tier 1 basic allotment proration for districts with compressed rates less than the maximum compressed rate as governed by 42.101(a), Education Code; 4) the effective elimination of the Guaranteed Yield Program, governed by Chapter 42, Subchapter F of the Education Code, also commonly referred to as the Enrichment Tier or Tier II; and 5) the effective elimination of Additional State Aid for Homestead Exemption and Limitation on Tax Increases, as governed by Section 42.2518 of the Education Code.

Based on an analysis of the Foundation School Program model, the anticipated cost to the state of eliminating local M&O property tax revenue would be \$23.3 billion in fiscal year 2021 and \$24.6 billion in fiscal year 2022.

The cost to the state for publication of the resolution is \$114,369 in fiscal year 2018.

Local Government Impact

Assuming no further statutory change affecting the school finance funding formulas, the effective elimination of the Guaranteed Yield Program, also referred to as the Enrichment Tier or Tier II, would result in the majority of districts and charter schools experiencing a reduction in overall M&O entitlement under the Foundation School Program.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, AM, AH, AG