LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

April 30, 2019

TO: Honorable Dustin Burrows, Chair, House Committee on Ways & Means

FROM: John McGeady, Assistant Director Sarah Keyton, Assistant Director
Legislative Budget Board

IN RE: **HB1102** by Bernal (Relating to a limitation on the total amount of ad valorem taxes that a school district may impose on certain residence homesteads following a substantial school tax increase.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1102, As Introduced: an impact of $0 through the biennium ending August 31, 2021, contingent upon passage of a constitutional amendment authorizing the exemption. Additionally, there would be a negative impact of ($411,889,000) through the biennium ending August 31, 2025 when fully implemented.

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, Seven-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2020	$0
2021	$0
2022	$2,078,000
2023	($72,654,000)
2024	($157,569,000)
2025	($254,320,000)
2026	($364,661,000)

All Funds, Seven-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *Foundation School Fund* 193	Probable Revenue Gain/(Loss) from *School Districts*
2020	$0	$0
2021	$0	$0
2022	$2,078,000	($91,823,000)
2023	($72,654,000)	($120,083,000)
2024	($157,569,000)	($153,517,000)
2025	($254,320,000)	($192,938,000)
2026	($364,661,000)	($239,480,000)

Fiscal Analysis

The bill would amend Chapter 11 of the Tax Code, regarding taxable property and exemptions to provide a school district property tax ceiling on an individual's residence homestead if:

1) the individual qualifies the property as a residence homestead for at least 15 consecutive years; and
2) the total school district taxes imposed in the 15th year are at least 120 percent greater than the total amount imposed in the first of the 15 years.

An individual, however, would not be permitted to receive the tax ceiling based on an increase in taxes for any period that began before the 2006 tax year.

The value of certain improvements to the residence homestead would be excluded from the ceiling. If the current year's property tax is less than the ceiling amount the lesser tax would be imposed. If the property has a tax ceiling provided under current law and that ceiling is less than the bill's proposed ceiling, the lesser tax would be imposed. The surviving spouse of the individual would retain the ceiling under specified circumstances. With certain exceptions, the tax ceiling would expire on January 1 if the property is not the residence homestead of the individual entitled to the limitation for the preceding tax year.

The bill would provide for the imposition of back taxes if the tax ceiling was erroneously allowed and chief appraisers would be required to calculate the taxable value lost to the ceiling and report it to the Comptroller each year.

The bill would amend Chapter 403, Subchapter M of the Government Code, regarding study of school district property value, to require the deduction of the value lost to the proposed tax ceiling be included in the Comptroller's Property Value Study.

The bill would make conforming changes.

The bill would take effect January 1, 2020, contingent on the adoption by the voters of a constitutional amendment (HJR 56).

Methodology

The bill's proposed tax ceiling would limit school district property tax levies to the taxes that were paid in the year the residence homestead owner qualifies. This would effectively exempt future taxable property value growth after the ceiling is imposed, thereby creating a cost to school districts and the state through the funding formulas. There would be no cost to other local taxing units.

The estimate was based on information from the United States Census Bureau and from appraisal districts. Census Bureau information on the length of homeownership in Texas coupled with analysis of historical school district levy growth on residence homesteads was used to estimate the levy loss in each year of the analysis. School district tax rates were used to calculate the taxable value losses. The bill's provision that would not permit an individual to receive the tax ceiling based on an increase in taxes for any period that began before the 2006 tax year would delay the first fiscal impact until fiscal 2022.

Projected tax rates were applied to the taxable value losses through the projection period to estimate tax revenue losses to school districts, special districts, cities and counties. Under provisions of the Education Code, the school district tax revenue loss is partially transferred to the state. Projected school funding rates were applied to estimate the state loss and the net school district loss.

In the first year of a taxable value loss, state recapture is reduced (a state loss). Because of the use of lagged-year property values, in the second and successive years of a taxable value loss, state recapture is further reduced and the previous year's school district loss related to the Tier 1 rate is generally transferred to the state through the Tier 1 funding formulas (a state loss).

In the school district enrichment formula (Tier 2), property values do not reflect the first-year value loss because of the one-year value lag. Because the formula does reflect a tax collections decline in that year, school districts lose Tier 2 funding creating a state gain. In the second and successive years the previous year's enrichment loss is generally transferred to the state (a state loss).

The school district debt (facilities) funding formula does not reflect the first-year taxable value loss because of lagged-year property values. In the second and successive years, a small portion of the previous year's school district facilities loss is transferred to the state (a state loss).

The table above shows the fiscal impact through fiscal 2026 because of the rapid cost growth in fiscal 2025 and 2026.

Local Government Impact

Contingent upon passage of a constitutional amendment authorizing the exemption, the bill's proposed tax ceiling would limit school district property tax levies to the taxes that were paid in the year the residence homestead owner qualifies. This would effectively exempt future taxable property value growth after the ceiling is imposed, thereby creating a cost to school districts and the state through the funding formulas. There would be no cost to other local taxing units.

Source Agencies: 304 Comptroller of Public Accounts

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