LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

April 16, 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: **HB3793** by Stephenson (Relating to an exemption from ad valorem taxation by a school district for maintenance and operations purposes of the total appraised value of a residence homestead and the offsetting of the resulting revenue loss to school districts with state sales and use tax revenue.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3793, As Introduced: a positive impact of $297,704,000 through the biennium ending August 31, 2021.

Additionally, a negative impact of ($23,851,065,000) would result for the biennium ending August 31, 2023.

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
2020	$0
2021	$297,704,000
2022	($11,651,166,000)
2023	($12,199,899,000)
2024	($12,835,865,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *Foundation School Fund* 193	Probable Revenue Gain/(Loss) from *School Districts*	Probable Revenue Gain/(Loss) from *School District Reimbursement Trust Fund*	Probable Revenue Gain/(Loss) from *Municipalities*
2020	$0	$0	$647,200,000	$120,000,000
2021	$297,704,000	($11,718,014,000)	$1,602,100,000	$296,800,000
2022	($11,651,166,000)	($364,351,000)	$1,680,700,000	$311,500,000
2023	($12,199,899,000)	($502,332,000)	$1,755,800,000	$325,400,000
2024	($12,835,865,000)	($656,271,000)	$1,833,600,000	$339,700,000

Fiscal Year	Probable Revenue Gain/(Loss) from *Transit Authorities*	Probable Revenue Gain/(Loss) from *Counties and Special Districts*
2020	$41,200,000	$24,200,000
2021	$101,800,000	$59,900,000
2022	$107,000,000	$63,000,000
2023	$111,600,000	$65,800,000
2024	$116,600,000	$68,700,000

Fiscal Analysis

The bill would amend Chapter 11 of the Tax Code, regarding taxable property and exemptions to provide that an adult is entitled to an exemption from taxation by a school district for maintenance and operations purposes of the total appraised value of the adult's residence homestead. The bill would require that property tax ceilings on the residence homesteads of persons with an over-65 or disabled exemption be reduced proportionately to reflect the proposed exemption.

The bill would amend Chapter 151 to provide for sales taxation of certain services and to repeal certain exemptions.

Sales tax would be imposed on accounting and audit services, admissions to high school and collegiate sporting events, engineering services, legal services, and real estate brokerage and agency services. Repealed exemptions would be those for packaging supplies and wrapping; certain electronic audio equipment; amusement services when provided by governmental entities, by certain nonprofit corporations, or by educational, religious, law enforcement association, and charitable organizations; and for taxable items incorporated into or used for improvement of realty of an exempt entity. The revenue from sales taxation of those items would be for deposit to the school district reimbursement trust fund established by the bill.

The bill would add Section 151.802 to provide for creation of the school district reimbursement trust fund as a trust fund outside the state treasury. The fund would consist of money deposited as proceeds from the sales taxation of items that were not subject to sales taxation on January 1, 2019. The comptroller would administer the fund as trustee on behalf of each school district in the state. Beginning in 2021, each school district would be paid an amount equal to the revenue the district was unable to collect in the preceding tax year by reason of the exemption of residential homestead value from school district maintenance and operation tax. If the balance in the trust fund were insufficient to pay each district the full amount of lost property tax revenue, payments to school districts from the fund would be subject to proportional reduction to prevent insolvency of the fund.

The bill would take effect January 1, 2020, but only if the constitutional amendment proposed by the 86th Legislature authorizing exemption from ad valorem taxation by a school district for maintenance and operation purposes of all or part of the appraised value of a residence homestead, and to use state money to offset the resulting revenue loss to school districts, is approved by the voters.

Methodology

The bill's exemption of the total appraised value of an adult's residence homestead for school district maintenance and operations (M&O) property tax purposes would create a cost to school districts, and to the state through the school funding formulas.

The M&O taxable value losses were estimated based on information from appraisal districts. Projected tax rates were applied to the taxable value losses through the five-year projection period to estimate tax revenue losses to school districts and the state. Facilities funding would not be affected because the school district taxable value related to debt taxes is not exempted. There would be no cost to local taxing units other than school districts. 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 estimated revenue for deposit to the school district reimbursement trust fund is based on estimates of the value of sales tax exemptions and exclusions in the Comptroller's *Tax Exemptions & Tax Incidence* report published November, 2018, subject to adjustment in view of the definitions provided in the bill of the services proposed to be taxed.

The bill would not amend the Education Code to reflect the value of amounts received by school districts from the reimbursement trust fund in the determination of school districts' entitlement to state aid. Consequently, amounts paid to school districts from the trust fund would be in addition to the higher amounts received by school districts through the Foundation School Program as a result of the reduction in taxable property value.

The amendments of Chapter 151 making specified services subject to sales and use tax and repealing exemptions would increase the sales tax base and result in revenue gains for units of local government.

This legislation would do one or more of the following: create or recreate a dedicated account in the General Revenue Fund, create or recreate a special or trust fund either in, with, or outside of the Treasury, or create a dedicated revenue source. The fund, account, or revenue dedication included in this bill would be subject to funds consolidation review by the current Legislature.

Local Government Impact

The estimated fiscal implication to units of local government is reflected in the table above.

Source Agencies: 304 Comptroller of Public Accounts
LBB Staff: WP, KK, SD, SJS