LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

March 26, 2019

TO: Honorable Paul Bettencourt, Chair, Senate Committee on Property Tax

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

IN RE: **SB5** by Bettencourt (Relating to an increase in the amount of the exemption of residence homesteads from ad valorem taxation by a school district, a reduction in the amount of the limitation on school district ad valorem taxes imposed on the residence homesteads of the elderly or disabled to reflect the increased exemption amount, 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 SB5, As Introduced: an impact of $0 through the biennium ending August 31, 2021.

Additionally, the bill combined with the corresponding SJR 71 will have a negative impact to the Economic Stabilization Fund of ($747,181,000) through the biennium ending August 31, 2021 and ($1,612,270,000) through 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	$0
2022	$0
2023	$0
2024	$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain from *Foundation School Fund* 193	Probable (Cost) from *Foundation School Fund* 193	Probable (Cost) from *Economic Stabilization Fund* 599	Probable Revenue (Loss) from *Economic Stabilization Fund* 599
2020	$0	$0	$0	$0
2021	$733,316,000	($733,316,000)	($733,316,000)	($13,865,000)
2022	$752,853,000	($752,853,000)	($752,853,000)	($33,129,000)
2023	$772,903,000	($772,903,000)	($772,903,000)	($53,385,000)
2024	$793,481,000	($793,481,000)	($793,481,000)	($74,669,000)

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 $25,000 to $35,000 and to require that the tax limitation for taxpayers who are age 65 and older or disabled (tax ceiling) be reduced to reflect the additional exemption.

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 state aid under the current formulas does not fully reimburse them for the tax revenue losses. The Comptroller would be required to provide 2019 school district taxable values calculated as if the proposed new residence homestead exemption and reduction in tax ceilings had been in effect in tax year 2019.

The bill would take effect January 1, 2020, contingent on the passage of a constitutional amendment (SJR 71) and the proposed changes related to an increased residence homestead exemption would apply only to a tax year that begins on or after the effective date.

Methodology

The bill's proposed increase in the residence homestead exemption would create a fiscal impact to the state because the state would hold school districts harmless for their revenue losses.

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 $35,000 would provide a $10,000 increase. The taxable value (appraised value after exemptions) of many homesteads is less than $10,000. Less than the full exemption 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 combines the state facilities, Tier 1, Tier 2, and other hold harmless losses. There would be no losses to local taxing units.

Note: Although the constitutional amendment in corresponding SJR 71 is self-enabling regarding the increased residence homestead exemption and would by itself create a cost to school districts and the state, it is not self-enabling regarding the provisions requiring the state to fully compensate school districts for the property tax revenue lost to the proposed increase in the homestead exemption.

As a result the combined effects of SJR 71 and this bill are shown in the table above, and not in the fiscal note for SJR 71.

Losses to the ESF represent a decrease of severance tax transfers equal to the amounts of estimated losses of tax revenues to the state facilities, Tier 1, Tier 2, and other hold harmless losses and reduction of interest earnings on the ESF cash balance. There are no additional losses to General Revenue-related funds since the funds are simply reallocated from ESF to school districts through the Foundation School Account. However, as recently as FY 2017, the General Revenue transfer to the ESF of $440 million would have been insufficient to cover the cost of reimbursing school districts for the estimated losses of tax revenues. In years when the reallocated ESF transfer is less than the loss of tax revenues, absent other authority, the shortfall would be made up by the General Revenue Fund.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: WP, KK, SD, SJS