

**LEGISLATIVE BUDGET BOARD  
Austin, Texas**

**FISCAL NOTE, 87th LEGISLATURE 1st CALLED SESSION 2021**

**July 9, 2021**

**TO:** Honorable Paul Bettencourt, Chair, Senate Committee on Local Government

**FROM:** Jerry McGinty, Director, Legislative Budget Board

**IN RE: SB12** by Bettencourt (Relating to the reduction of the amount of a limitation on the total amount of ad valorem taxes that may be imposed by a school district on the residence homestead of an individual who is elderly or disabled to reflect any reduction from the preceding tax year in the district's maximum compressed rate.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for SB12, As Introduced : a negative impact of (\$114,865,660) through the biennium ending August 31, 2023.

**General Revenue-Related Funds, Five- Year Impact:**

<i>Fiscal Year</i>	<b>Probable Net Positive/(Negative) Impact to General Revenue Related Funds</b>
2022	\$0
2023	(\$114,865,660)
2024	(\$132,094,477)
2025	(\$147,927,230)
2026	(\$176,087,392)

**All Funds, Five-Year Impact:**

<i>Fiscal Year</i>	<b>Probable Savings/(Cost) from Foundation School Fund 193</b>	<b>Probable Revenue Gain/(Loss) from School Districts</b>
2022	\$0	\$0
2023	(\$114,865,660)	(\$197,525,000)
2024	(\$132,094,477)	(\$223,138,000)
2025	(\$147,927,230)	(\$251,910,000)
2026	(\$176,087,392)	(\$281,849,000)

**Fiscal Analysis**

The bill would amend Section 11.26 of the Tax Code, regarding the limitation of school tax on homesteads of elderly or disabled. The bill would recalculate school district tax limitations (tax ceiling) on residence homesteads for individuals who are 65 or over or disabled to reflect reductions in school district maximum compressed tax rates for 2019 and subsequent tax years.

The bill specifies certain calculations for the 2022 tax year to adjust the tax limitation for certain individuals based on the year they were first eligible to receive the limitation to account for tax rate reductions and ongoing tax rate compression passed by the 86th Legislature. For the 2023 tax year and subsequent tax years, the tax ceiling is computed by the prior year tax amount minus the rate reduction from compression (prior year

maximum compressed rate minus current year maximum compressed rate) and adjusting for any tax attributable to new improvements.

The bill would be effective January 1, 2022, contingent on voter approval of a constitutional amendment (SJR 4).

### **Methodology**

This estimate is based on information from the United States Census Bureau and from appraisal districts. The average taxable value of a 65-and-over homestead was estimated for each year from 2000 through 2020. The statewide school district weighted average tax rate was applied in each year to estimate the typical tax limitation in each year. The costs were stratified in five-year groups and an average cost was estimated for each group. The rate reductions as specified in the bill were calculated for each group and summed to estimate the initial statewide total cost to school districts in tax year 2022. For subsequent tax years, projected rate reductions were applied to estimated growth in the average taxable value of 65-and-over homesteads to estimate future tax ceiling reductions.

If school district property tax rates decreased from the preceding year, homestead owners subject to the limitation would have their limitation reduced. A continuous tax ceiling adjustment would effectively exempt future taxable property value growth after the ceiling is imposed and continue decreasing all tax ceilings as long as there is a reduction in a school district's maximum compressed rate (MCR). This analysis assumes a continuing 1 cent reduction in MCR each year after 2022. Larger reductions of the MCR would impose additional cost. The impact will vary depending on property value growth and the level of tax rate reduction.

There would be no administrative costs to the Comptroller's office.

Note: The impact on school districts shown in the table above is provided for illustrative purposes only. The mechanics of the school finance system and deduction of the school district's loss in the Comptroller's property value study would transfer a portion of the fiscal impacts to the state.

### **Local Government Impact**

The fiscal implication for school districts is shown in the table above.

**Source Agencies:** 304 Comptroller of Public Accounts

**LBB Staff:** JMc, AF, SD, BRI