LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 87TH LEGISLATURE 2nd CALLED SESSION 2021

August 7, 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 and to 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 SB12, As Introduced : an impact of $0 through the biennium ending August 31, 2023. However, a negative impact of ($467.5 million) is expected in the biennium ending August 31, 2025.

General Revenue-Related Funds, Five- Year Impact:

Fiscal Year	**Probable Net Positive/(Negative) Impact to** ***General Revenue Related Funds***
2022	$0
2023	$0
2024	($219,348,876)
2025	($248,120,464)
2026	($276,892,052)

All Funds, Five-Year Impact:

Fiscal Year	**Probable Savings/(Cost) from** ***Foundation School Fund*** **193**	**Probable Revenue Gain/(Loss) from** ***School Districts***
2022	$0	$0
2023	$0	$0
2024	($219,348,876)	($219,348,876)
2025	($248,120,464)	($248,120,464)
2026	($276,892,052)	($276,892,052)

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 2023 tax year to adjust the tax limitation for certain individuals (tax ceiling) 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 amend Chapter 48 of the Education Code, regarding the Foundation School Program, to require that the state hold school districts harmless for tax revenue losses resulting from tax ceiling reductions. 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 bill would require the Texas Education Agency post certain information on the agency's website.

The bill would amend Chapter 403 of the Government Code, regarding the Comptroller's Property Value Study, to require the Comptroller separately identify the final taxable value for each school district to account for the reduction in tax ceilings.

The bill would be effective January 1, 2023, contingent on voter approval of a constitutional amendment (SJR 2).

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 2023. 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.

Because the bill would hold school districts harmless for all property tax revenue losses from tax ceiling reductions, the cost would be transferred to the state. Therefore, there would be no losses to local taxing units.

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

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