

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 87TH LEGISLATURE 3rd CALLED SESSION 2021**

**October 18, 2021**

**TO:** Honorable Dan Patrick, Lieutenant Governor, Senate  
 Honorable Dade Phelan, Speaker of the House, House of Representatives

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

**IN RE: SB1** by Bettencourt (relating to an increase in the amount of the exemption of residence homesteads from ad valorem taxation by a school district and the protection of school districts against the resulting loss in local revenue.), **Conference Committee Report**

**Estimated Two-year Net Impact to General Revenue Related Funds** for SB1, Conference Committee Report : a negative impact of (\$355,250,681) 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:**

<i>Fiscal Year</i>	<i>Probable Net Positive/(Negative) Impact to General Revenue Related Funds</i>
2022	\$0
2023	(\$355,250,681)
2024	(\$386,420,012)
2025	(\$413,306,071)
2026	(\$436,603,746)

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

<i>Fiscal Year</i>	<i>Probable Savings/(Cost) from Foundation School Fund 193</i>	<i>Probable Revenue Gain/(Loss) from Recapture Payments Atten Crdts 8905</i>
2022	\$0	\$0
2023	(\$355,250,681)	(\$83,951,561)
2024	(\$386,420,012)	(\$79,698,065)
2025	(\$413,306,071)	(\$103,988,170)
2026	(\$436,603,746)	(\$116,782,002)

**Fiscal Analysis**

The bill would amend the Tax Code to increase the mandatory homestead exemption for school districts from \$25,000 to \$40,000.

The bill would amend the Education Code to entitle districts to additional state aid (ASAHE) to the extent that a district's combined state and local revenue used to service eligible debt after the homestead exemption increase would be less than the state and local revenue that would have been available for debt service had the homestead

exemption not increased.

The bill would further entitle districts to ASAHE to the extent that combined state and local FSP revenues for maintenance and operations (M&O) with the increased homestead exemption would be less than the district's combined state and local revenue for M&O had the homestead exemption not increased.

The increased homestead exemption would apply beginning with the 2022 tax year.

### **Methodology**

The bill's proposed increase in the residence homestead exemption would reduce local school district property tax revenue available to fund district entitlement under the FSP beginning with tax year 2022 (fiscal year 2023). Districts that experienced a revenue decrease would receive additional state aid through the FSP to maintain the level of combined state and local revenue they would have received had the homestead exemption not increased.

The Comptroller of Public Accounts assumes the provisions of the bill would result in a statewide decrease of \$52.3 billion in taxable property values for fiscal year 2023, a decrease of \$53.3 billion for fiscal year 2024, increasing to a reduction of \$55.5 billion for fiscal year 2026. Applying these property value decreases to the FSP model results in an estimated cost to Foundation School Fund No. 193 (General Revenue) of \$355.3 million in fiscal year 2023, \$386.4 million in fiscal year 2024, increasing to \$436.6 million in fiscal year 2026. Additionally, the model projects Recapture Payments- Attendance Credits would be reduced by \$84.0 million in fiscal year 2023, \$79.7 million in fiscal year 2024, increasing to \$116.8 million in fiscal year 2026.

### **Local Government Impact**

School districts would experience a loss of local tax revenue as a result of implementing the provisions of the bill. This analysis assumes this lost revenue would be offset by additional state aid.

### **Source Agencies:**

**LBB Staff:** JMc, KK, AH, ASA