

**LEGISLATIVE BUDGET BOARD
Austin, Texas**

FISCAL NOTE, 88TH LEGISLATURE 1st CALLED SESSION 2023

May 30, 2023

TO: Honorable Joan Huffman, Chair, Senate Committee on Finance

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: SB1 by Bettencourt (Relating to providing property tax relief through the public school finance system.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1, As Introduced : a negative impact of (\$12,133,800,000) through the biennium ending August 31, 2025.

General Revenue-Related Funds, Five- Year Impact:

<i>Fiscal Year</i>	<i>Probable Net Positive/(Negative) Impact to General Revenue Related Funds</i>
2024	(\$5,947,500,000)
2025	(\$6,186,300,000)
2026	(\$6,371,400,000)
2027	(\$6,495,100,000)
2028	(\$6,585,600,000)

All Funds, Five-Year Impact:

<i>Fiscal Year</i>	<i>Probable (Cost) from Foundation School Fund 193</i>
2024	(\$5,947,500,000)
2025	(\$6,186,300,000)
2026	(\$6,371,400,000)
2027	(\$6,495,100,000)
2028	(\$6,585,600,000)

Fiscal Analysis

The bill would add a new section to Chapter 48 of the Education Code, related to the Foundation School Program, to require the Commissioner of Education to calculate a school district's maximum compressed tax (MCR) rate for the 2023-2024 school year with an additional 10 cent reduction. The new section also specifies that a school district's prior year maximum compressed rate for 2024-2025 be defined as 2023-2024's additionally compressed rate, thus providing that the additional 10 cent reduction is reflected each successive school year. The bill would continue the requirement in current law, that a district's maximum compressed tax rate not be less than 90 percent of another district's maximum compressed tax rate.

The bill would amend Chapter 11 of the Tax Code, relating to Taxable Property and Exemptions, to increase the mandatory homestead exemption for school district property taxation from \$40,000 to \$100,000.

Methodology

The bill's proposed increase in the standard residence homestead exemption and the MCR reduction would create a fiscal impact to the state. The proposed increase in the residence homestead exemptions and reduction in MCR would reduce local school district property tax revenue available to fund district entitlement under the FSP beginning with tax year 2023 (fiscal year 2024). 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.

Local Government Impact

The provisions of the bill would only apply to school districts. School Districts would receive less ad valorem tax revenue and have a reduced local share of the FSP as a result. The reduced local share would result in greater state aid or reduced recapture to compensate for the loss of local property tax revenue.

Source Agencies:

LBB Staff: JMc, KK