

LEGISLATIVE BUDGET BOARD  
Austin, Texas

FISCAL NOTE, 88TH LEGISLATURE 2nd CALLED SESSION 2023

June 28, 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, exemptions, and limitations on taxes and providing franchise tax relief.), As Introduced

**Estimated Two-year Net Impact to General Revenue Related Funds** for SB1, As Introduced : a negative impact of (\$12,700,000,000) through the biennium ending August 31, 2025.

Additionally, the bill will have a direct impact of a revenue loss to the Property Tax Relief Fund of (\$600,000,000) for the 2024-25 biennium. Any loss to the Property Tax Relief Fund must be made up with an equal amount of General Revenue to fund the Foundation School Program.

General Revenue-Related Funds, Five- Year Impact:

<i>Fiscal Year</i>	<i>Probable Net Positive/(Negative) Impact to General Revenue Related Funds</i>
2024	(\$6,100,000,000)
2025	(\$6,600,000,000)
2026	(\$7,000,000,000)
2027	(\$7,400,000,000)
2028	(\$7,700,000,000)

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 Property Tax Relief Fund 304</i>
2024	(\$6,100,000,000)	(\$300,000,000)
2025	(\$6,600,000,000)	(\$300,000,000)
2026	(\$7,000,000,000)	(\$300,000,000)
2027	(\$7,400,000,000)	(\$300,000,000)
2028	(\$7,700,000,000)	(\$300,000,000)

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 48 of the Education Code to lower the collection limit rate (CLR) used to calculate the MCR and the state compression percentage from 2.5 percent to 1.75 percent.

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.

The bill would amend Chapter 171 of the Tax Code, relating to the franchise tax, by increasing the amount of total revenue below which a taxable entity would owe no tax. The current level is \$1.0 million, and this bill would raise the amount to \$2.47 million.

### **Methodology**

The bill's proposed increase in the standard residence homestead exemption and CLR and MCR reductions would create a fiscal impact to the state. The proposed increase in the residence homestead exemptions and reductions in MCR and CLR 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.

The provisions of the bill related to increasing the amount of total revenue below which a taxable entity would owe no franchise tax from \$1.0 to \$2.47 million would result in reduced revenue to the Property Tax Relief Fund.

### **Local Government Impact**

The provisions of the bill related to the property tax 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, SD, BRI, CPA