

BILL ANALYSIS

Senate Research Center
88R7156 CJC/MEW-D

S.B. 3
By: Bettencourt et al.
Finance
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AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

The 84th Legislature passed and voters approved increasing the homestead exemption from \$15,000 to \$25,000 in 2015. Similarly, the 87th Legislature passed S.J.R. 2 and was approved by voters in May 2022 increasing the exemption again up to \$40,000 per homestead. In the 88th Legislature, S.B. 3 would raise the homestead exemption to \$70,000.

This increase in the homestead exemption amount will provide a savings of \$341 to a homeowner's school tax at the statewide ISD average tax rate of \$1.136. Included in S.B. 3 is a hold harmless to school districts—the state will make up any formula funding deficit a school district might incur as a result of this exemption increase.

S.B. 3 would provide voters the option to vote, like in May 2022, to increase the homestead exemption amount to \$70,000. S.J.R. 3 does contain a temporary provision, like what was done last year, which permits the increase to \$70,000 for the 2023 tax year, if approved in November 2023 to make the exemption effective immediately. This temporary section of S.J.R. 3 will expire at the end of 2023, and the language in S.B. 3 will become the permanent increase in the constitutional homestead exemption amount going forward as of January 1, 2024.

S.B. 3 also contains a provision to provide the full amount of the \$40,000 homestead exemption increase to Over 65/Disabled exemption holders who did not receive the full benefit from S.J.R. 3 and S.B. 1 that was approved by voters in May 2022. Additionally, S.B. 3 contains language that if a future legislature increases the homestead exemption, Over 65/Disabled exemption holders will automatically benefit from the increased exemption amount. This provision will eliminate the need to have a separate constitutional amendment every time the exemption amount is increased for Over 65/Disabled exemption holders.

S.B. 3 seeks to increase the constitutional homestead exemption amount to \$70,000.

As proposed, S.B. 3 amends current law relating to an increase in the amount of the exemption of residence homesteads from ad valorem taxation by a school district, an adjustment in the amount of the limitation on school district ad valorem taxes imposed on the residence homesteads of the elderly or disabled to reflect increases in the exemption amount, and the protection of school districts against the resulting loss in local revenue.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Section 11.13(b), Tax Code, as follows:

(b) Provides that an adult is entitled to exemption from taxation by a school district of \$70,000, rather than \$40,000, of the appraised value of the adult's residence homestead, except that only \$5,000 of the exemption applies to an entity operating under certain former chapters as those chapters existed on May 1, 1995, as permitted by Section 11.301 (Application of Former Law), Education Code.

SECTION 2. Amends Section 11.26, Tax Code, by amending Subsections (a), (a-10), and (o) and adding Subsection (a-11), as follows:

(a) Deletes existing text providing that if the first tax year the individual qualified the residence homestead for the exemption provided by Section 11.13(c) (relating to an additional exemption of \$10,000 to the residence homestead tax exemption from a school district for adults who are 65 years or old or disabled) for individuals 65 years of age or older or disabled was a tax year before the 2015 tax year, the amount of the limitation provided by Section 11.26 (Limitation of School Tax on Homesteads of Elderly or Disabled) is the amount of tax the school district imposed for the 2014 tax year less an amount equal to the amount determined by multiplying \$10,000 times the tax rate of the school district for the 2015 tax year, plus any 2015 tax attributable to improvements made in 2014, other than improvements made to comply with governmental regulations or repairs.

(a-10) Defines "maximum compressed rate." Provides that the amount of the limitation provided by this section on the homestead, notwithstanding the other provisions of this section, if in the 2024 or a subsequent tax year an individual qualifies for a limitation on tax increases provided by this section on the individual's residence homestead, is equal to the amount computed by:

(1) makes no changes to this subdivision;

(2)-(3) makes nonsubstantive changes to these subdivisions;

(4) multiplying the amount of any increase in the current tax year as compared to the preceding tax year in the amount of the exemption to which the individual is entitled under Section 11.13(b) by the school district's tax rate for the current tax year; and

(5) subtracting the amount computed under Subdivision (4) from the amount computed under Subdivision (3).

(a-11) Provides that this subsection applies only to an individual who in the 2024 tax year qualifies for a limitation under this section and for whom the 2021 tax year or an earlier tax year was the first tax year the individual or the individual's spouse qualified for an exemption under Section 11.13(c). Provides that the amount of the limitation provided by this section on the residence homestead of an individual to which this subsection applies for the 2024 tax year is the amount of the limitation as computed under Subsection (a-10) of this section less an amount equal to the product of \$15,000 and the tax rate of the school district for the 2022 tax year. Provides that this subsection expires January 1, 2025.

(o) Provides that an improvement to property that would otherwise constitute an improvement under Subsection (b) (relating to authorizing a school district to increase ad valorem taxes on a homestead following improvements made to such homestead) is not treated as an improvement under that subsection if the improvement is a replacement structure for a structure that was rendered uninhabitable or unusable by a casualty or by wind or water damage, notwithstanding Subsections (a) and (b), rather than Subsections (a), (a-3) (relating to the continued applicability and expiration of limitations to increases of school district ad valorem taxes in subsequent tax years) and (b).

SECTION 3. Amends Section 46.071, Education Code, by amending Subsections (a-1) and (b-1) and adding Subsections (a-2), (b-2), and (c-2), as follows:

(a-1) Provides that a school district is entitled to additional state aid under Subchapter D (State Aid for Homestead Exemption and Limitation on Tax Increases) for the 2022–2023 and 2023–2024 school years, rather than beginning with the 2022–2023 school year, to the extent that state and local revenue used to service debt eligible under Chapter

46 (Assistance With Instructional Facilities and Payment of Existing Debt) is less than the state and local revenue that would have been available to the district under this chapter as it existed on September 1, 2021, if any increase in the residence homestead exemption under Section 1-b(c) (relating to homestead exemptions from ad valorem taxation for certain qualifying individuals), Article VIII (Taxation and Revenue), Texas Constitution, as proposed by the 87th Legislature, 3rd Called Session, 2021, had not occurred.

(a-2) Provides that a school district is entitled to additional state aid under this subchapter beginning with the 2024–2025 school year, to the extent that state and local revenue used to service debt eligible under this chapter is less than the state and local revenue that would have been available to the district under this chapter as it existed on September 1, 2023, if any increase in the residence homestead exemption under Section 1-b(c), Article VIII, Texas Constitution, and any additional limitation on tax increases under Section 1-b(d) (relating to the general prohibition on increasing certain ad valorem taxes on certain individuals qualifying for the homestead exemption) of that article as proposed by the 88th Legislature, Regular Session, 2023, had not occurred.

(b-1) Provides that additional state aid under Section 46.071 (Additional State Aid for Homestead Exemption and Limitation on Tax Increases) for the 2022–2023 and 2023–2024 school years, rather than beginning with the 2022–2023 school year, subject to Subsections (c-1) (relating to providing that local interest and sinking revenue for debt service is limited to certain revenue for the purpose of determining state aid under certain subsections), (d) (relating to the amount of funds a school district is entitled to receive for debt service under certain circumstances), and (e) (relating to the duties and procedure for the commissioner of education to compute state aid under this section), is equal to the amount by which the loss of local interest and sinking revenue for debt service attributable to any increase in the residence homestead exemption under Section 1-b(c), Article VIII, Texas Constitution, as proposed by the 87th Legislature, 3rd Called Session, 2021, is not offset by a gain in state aid under this chapter.

(b-2) Provides that additional state aid under this section beginning with the 2024–2025 school year, subject to Subsections (c-2), (d), and (e), is equal to the amount by which the loss of local interest and sinking revenue for debt service attributable to any increase in the residence homestead exemption under Section 1-b(c), Article VIII, Texas Constitution, and any additional limitation on tax increases under Section 1-b(d) of that article as proposed by the 88th Legislature, Regular Session, 2023, is not offset by a gain in state aid under this chapter.

(c-2) Provides that local interest and sinking revenue for debt service, for the purpose of determining state aid under Subsections (a-2) and (b-2), is limited to revenue required to service debt eligible under this chapter as of September 1, 2024, including refunding of that debt, subject to Section 46.061 (State Assistance for Refinancing). Provides that the limitation imposed by Section 46.034(a) (relating to prohibiting the existing debt tax rate from exceeding a certain rate or amount of appropriation) does not apply for the purpose of determining state aid under this section.

SECTION 4. Amends Section 48.2542, Education Code, as follows:

Sec. 48.2542. **ADDITIONAL STATE AID FOR ADJUSTMENT OF LIMITATION ON TAX INCREASES ON HOMESTEAD OF ELDERLY OR DISABLED.** Provides that a school district, notwithstanding any other provision of Chapter 48 (Foundation School Program), if the district is not fully compensated through state aid or the calculation of excess local revenue under this chapter based on the determination of the district's taxable value of property under Subchapter M (Study of School District Property Values), Chapter 403, Government Code, is entitled to additional state aid in the amount necessary to fully compensate the district for the amount of ad valorem tax revenue lost due to a reduction of the amount of the limitation on tax increases provided by Sections 11.26(a-10) and (a-11), Tax Code, as applicable, rather than certain other subsections.

SECTION 5. Amends Section 48.2542, Education Code, effective January 1, 2025, as follows:

Sec. 48.2542. ADDITIONAL STATE AID FOR ADJUSTMENT OF LIMITATION ON TAX INCREASES ON HOMESTEAD OF ELDERLY OR DISABLED. Provides that a school district, notwithstanding any other provision of this chapter, if the district is not fully compensated through state aid or the calculation of excess local revenue under this chapter based on the determination of the district's taxable value of property under Subchapter M, Chapter 403, Government Code, is entitled to additional state aid in the amount necessary to fully compensate the district for the amount of ad valorem tax revenue lost due to a reduction of the amount of the limitation on tax increases provided by Section 11.26(a-10), Tax Code, rather than certain other subsections of the Tax Code, as applicable.

SECTION 6. Amends Section 48.2543, Education Code, as follows:

Sec. 48.2543. ADDITIONAL STATE AID FOR HOMESTEAD EXEMPTION. (a) Provides that a school district, for the 2022–2023 and 2023–2024 school years, rather than beginning with the 2022–2023 school year, is entitled to additional state aid to the extent that state and local revenue under this chapter and Chapter 49 (Options for Local Revenue Levels in Excess of Entitlement) is less than the state and local revenue that would have been available to the district under this chapter and Chapter 49 as those chapters existed on September 1, 2021, if any increase in the residence homestead exemption under Section 1-b(c), Article VIII, Texas Constitution, as proposed by the 87th Legislature, 3rd Called Session, 2021, had not occurred.

(a-1) Provides that a school district, beginning with the 2024–2025 school year, is entitled to additional state aid to the extent that state and local revenue under this chapter and Chapter 49 is less than the state and local revenue that would have been available to the district under this chapter and Chapter 49 as those chapters existed on September 1, 2023, if any increase in the residence homestead exemption under Section 1-b(c), Article VIII, Texas Constitution, and any additional limitation on tax increases under Section 1-b(d) of that article as proposed by the 88th Legislature, Regular Session, 2023, had not occurred.

(b) Provides that the lesser of the school district's currently adopted maintenance and operations tax rate or the adopted maintenance and operations tax rate for:

(1) creates this subdivision from existing text; and

(2) the 2023 tax year is used for the purpose of determining additional state aid under Subsection (a-1).

SECTION 7. Amends Section 48.2556(a), Education Code, as follows:

(a) Requires the Texas Education Agency (TEA), for purposes of allowing the chief appraiser of each appraisal district and the assessor for each school district to make the calculations required by Sections 11.26(a-10) and (a-11), Tax Code, to post on TEA's Internet website each school district's maximum compressed rate, as determined under Section 48.2551 (Maximum Compressed Tax Rate), for each tax year beginning with the 2022, rather than the 2019, tax year.

Deletes existing text requiring TEA to post certain information on TEA's Internet website for purposes of allowing the chief appraiser of each appraisal district and the assessor for each school district to make the calculations required by certain subsections, including each school district's tier one maintenance and operations tax rate, as provided by Section 45.0032(a) (relating to determining a school district's tier one maintenance and operations tax rate), for the 2018 tax year.

SECTION 8. Amends Section 48.2556(a), Education Code, effective January 1, 2025, as follows:

(a) Requires TEA to post on TEA's Internet website, for purposes of allowing the chief appraiser of each appraisal district and the assessor for each school district to make the calculations required by Sections 11.26(a-10), Tax Code, each school district's maximum compressed rate, as determined under Section 48.2551, for the current tax year and the preceding tax year, rather than for each tax year beginning with the 2019 tax year.

Deletes existing text requiring TEA to post certain information on TEA's Internet website for purposes of allowing the chief appraiser of each appraisal district and the assessor for each school district to make the calculations required by certain subsections, including each school district's tier one maintenance and operations tax rate, as provided by Section 45.0032(a), for the 2018 tax year.

SECTION 9. Amends Section 403.302, Government Code, by amending Subsection (j-1) and adding Subsection (j-2), as follows:

(j-1) Requires the Comptroller of Public Accounts of the State of Texas (comptroller), in the final certification of the study under Subsection (j) (relating to requiring the comptroller to certify the final taxable value of each school district to certain entities), to separately identify the final taxable value for each school district as adjusted to account for the reduction of the amount of the limitation on tax increases provided by Section 11.26(a-10), Tax Code, rather than certain subsections of the Tax Code, as applicable.

(j-2) Requires the comptroller, in the final certification of the study under Subsection (j), to separately identify the final taxable value for each school district as adjusted to account for the reduction of the amount of the limitation on tax increases provided by Section 11.26(a-11), Tax Code. Provides that this subsection expires January 1, 2025.

SECTION 10. Repealers: Sections 11.26(a-1) (relating to determining the amount of limitation on ad valorem tax increases for certain qualifying individuals in the 2007 tax year whose first tax year to qualify for a limitation was the 2006 tax year) and (a-2) (relating to determining the amount of limitation on ad valorem tax increases for certain qualifying individuals in the 2007 tax year whose first tax year to qualify for a limitation was before the 2006 tax year), Tax Code.

Repealers: Sections 11.26(a-3) (relating to the continued applicability and expiration of limitations to increases of school district ad valorem taxes in subsequent tax years) and (a-4) (relating to defining "maximum compressed rate"), Tax Code.

Repealers: Sections 11.26(a-5) (relating to determining the amount of limitation on ad valorem tax increases for certain qualifying individuals in the 2023 tax year whose first tax year to qualify for a limitation was the before the 2019 tax year) and (a-6) (relating to determining the amount of limitation on ad valorem tax increases for certain qualifying individuals in the 2023 tax year whose first tax year to qualify for a limitation was the 2019 tax year), Tax Code.

Repealers: Sections 11.26(a-7) (relating to determining the amount of limitation on ad valorem tax increases for certain qualifying individuals in the 2023 tax year whose first tax year to qualify for a limitation was the 2020 tax year) and (a-8) (relating to determining the amount of limitation on ad valorem tax increases for certain qualifying individuals in the 2023 tax year whose first tax year to qualify for a limitation was the 2021 tax year), Tax Code.

Repealer: Section 11.26(a-9) (relating to determining the amount of limitation on ad valorem tax increases for certain qualifying individuals in the 2023 tax year whose first tax year to qualify for a limitation was the 2022 tax year), Tax Code.

SECTION 11. Makes application of Sections 11.13 and 11.26, Tax Code, prospective to January 1, 2024.

SECTION 12. Effective date, except as otherwise provided by this Act: January 1, 2024, contingent upon approval by the voters of the constitutional amendment proposed by the 88th Legislature, Regular Session, 2023, to increase the amount of the exemption of residence homesteads from ad valorem taxation by a school district and to adjust the amount of the limitation on school district ad valorem taxes imposed on the residence homesteads of the elderly or disabled to reflect increases in the exemption amount.