

**LEGISLATIVE BUDGET BOARD  
Austin, Texas**

**FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION**

**March 22, 2023**

**TO:** Honorable Morgan Meyer, Chair, House Committee on Ways & Means

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

**IN RE: HB2** by Meyer (relating to providing property tax relief through the public school finance system and property tax appraisal and administration.), **Committee Report 1st House, Substituted**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB2, Committee Report 1st House, Substituted : a negative impact of (\$12,001,216,000) through the biennium ending August 31, 2025.

**General Revenue-Related Funds, Five- Year Impact:**

<i>Fiscal Year</i>	<b>Probable Net Positive/(Negative) Impact to General Revenue Related Funds</b>
2024	(\$5,703,814,000)
2025	(\$6,297,402,000)
2026	(\$7,088,773,000)
2027	(\$8,011,372,000)
2028	(\$9,018,193,000)

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

<i>Fiscal Year</i>	<b>Probable Savings/(Cost) from Foundation School Fund 193</b>	<b>Probable Savings/(Cost) from Recapture Payments Atten Crdts 8905</b>	<b>Probable Revenue Gain/(Loss) from School Districts</b>
2024	(\$5,703,814,000)	\$2,130,292,000	(\$5,710,913,000)
2025	(\$6,297,402,000)	\$2,432,776,000	(\$6,594,188,000)
2026	(\$7,088,773,000)	\$2,437,392,000	(\$7,733,997,000)
2027	(\$8,011,372,000)	\$2,814,490,000	(\$9,040,273,000)
2028	(\$9,018,193,000)	\$3,031,094,000	(\$10,484,212,000)

**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 rate for the 2023-2024 school year with an additional 15 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 15 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 31 of the Tax Code, related to Collections, to require that the collector for a taxing unit enter a contract to escrow the payment of property taxes at the request of a property owner.

The bill would amend Chapter 23 of the Tax Code, relating to Appraisal Methods and Procedures, to reduce the limitation on appraised value increases from 10 percent to 5 percent and to expand the type of property to which the limitation applies from a residence homestead to real property. For a residential property which the owner acquires and qualifies for a residence homestead exemption in the same year, the limitation would take effect in the tax year following the tax year in which the owner acquires the property. For other real property, the limitation would take effect in the tax year following the first tax year in which the owner owns the property on January 1. The residential homestead appraised value limitation would continue during ownership of the property by the owner's spouse or surviving spouse.

The bill would provide that, for purposes of Section 23.23, the term “real property” would include a manufactured home that qualifies as a residence homestead.

The bill would make conforming changes to the Tax Code and Government Code.

The bill would repeal Section 23.23 (c-1) related to Limitation on Appraised Value of Residence Homestead, and 31.072(h) and (i) related to Escrow Accounts for veterans and owners of manufactured homes, of the Tax Code.

The provisions regarding additional tax rate compression and changes to the Education Code would take effect September 1, 2023. The provision requiring a collector of property taxes to offer escrow accounts, when requested, would take effect January 1, 2024. The limitation on appraised value would take effect January 1, 2024, contingent on voter approval of an associated constitutional amendment (HJR 1).

## **Methodology**

The bill's provision reducing the maximum compressed tax rates of school districts by \$0.15 would have a cost to the state through operation of the school funding formula. Levy loss from the proposed reduction was estimated using estimated school district taxable values.

Contingent on the passage of a HJR 1, the bill would require appraisal districts to limit the growth in the appraised value of all real property to 5 percent per year creating a fiscal impact on the state through the operation of the school finance formulas. The analysis was based on appraisal roll information reported electronically by appraisal districts. The year to year percent change in value for a large random sample of real properties listed on the appraisal roll was calculated and the results were sorted by percent change. The value loss resulting from the proposed limitation was calculated for real properties that increased in value more than five percent. Value lost to the existing 10 percent value limitation on homestead property was excluded. The results were extrapolated to all real property.

Value losses would occur in proportion to future real property growth rates. Mathematical modeling supported by historical data from the existing 10 percent cap shows that, when property value growth rates are relatively stable, value losses increase substantially in the second year after the imposition of a value growth cap and then increase at a decreasing rate. The value loss was adjusted in the second and succeeding years of the analysis to reflect this growth pattern.

Under provisions of the Education Code, the school district tax revenue loss is partially transferred to the state. The estimated cost to the Foundation School Program (FSP) is \$5.7 billion in fiscal year 2024, \$6.3 billion in fiscal year 2025, increasing to \$9.0 billion in fiscal year 2028. The cost to the FSP includes estimated decreases in Recapture Payments - Attendance Credits of \$2.1 billion in fiscal year 2024, \$2.4 billion in fiscal year 2025, increasing to \$3.0 billion in fiscal year 2028 as a result of school district tax revenue loss. The decrease in recapture is reflected as a savings in the table above because recapture is appropriated as a method of finance for the FSP in the General Appropriations Act.

## **Local Government Impact**

Contingent upon passage of a constitutional amendment authorizing the appraised value limitation, the bill would require appraisal districts to limit the growth in the appraised value of all real property to 5.0 percent per year which could reduce taxable value. However, the no-new-revenue and voter-approval tax rates as provided by

Section 26.04, Tax Code could be higher as a consequence of the additional appraisal growth limitation proposed by the bill.

The fiscal impact to school districts is shown in the table above.

**Source Agencies:** 304 Comptroller of Public Accounts

**LBB Staff:** JMc, KK, SD, BRI, MJe