

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION

May 21, 2023

TO: Honorable Dan Patrick, Lieutenant Governor, Senate

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: SB3 by Bettencourt (Relating to providing property tax relief through the public school finance system, exemptions, limitations on appraisals and taxes, and property tax administration.), **As Passed 2nd House**

Estimated Two-year Net Impact to General Revenue Related Funds for SB3, As Passed 2nd House : a negative impact of (\$16,300,585,767) through the biennium ending August 31, 2025.

General Revenue-Related Funds, Five- Year Impact:

| <i>Fiscal Year</i> | Probable Net Positive/(Negative) Impact to General Revenue Related Funds |
|--------------------|---|
| 2024 | (\$7,700,285,740) |
| 2025 | (\$8,600,300,027) |
| 2026 | (\$9,700,300,027) |
| 2027 | (\$10,900,300,027) |
| 2028 | (\$12,200,300,027) |

All Funds, Five-Year Impact:

| <i>Fiscal Year</i> | Probable Savings/(Cost) from General Revenue Fund 1 | Probable Savings/(Cost) from Foundation School Fund 193 | Change in Number of State Employees from FY 2023 |
|--------------------|--|--|---|
| 2024 | (\$285,740) | (\$7,700,000,000) | 2.0 |
| 2025 | (\$300,027) | (\$8,600,000,000) | 2.0 |
| 2026 | (\$300,027) | (\$9,700,000,000) | 2.0 |
| 2027 | (\$300,027) | (\$10,900,000,000) | 2.0 |
| 2028 | (\$300,027) | (\$12,200,000,000) | 2.0 |

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 provide additional state aid to certain districts receiving an adjustment to required recapture payments for the 2022-23 school year under Education Code Section 48.257 (b).

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 adjust the tax ceiling for over 65 or disabled taxpayers who qualified in 2021 to reflect the previous \$15,000 increase to the homestead exemption.

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 bill would repeal certain sections of the Tax Code pertaining to previous tax ceiling adjustments.

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 and the provisions related to the increased homestead exemption would take effect January 1, 2024, contingent on voter approval of an associated constitutional amendment (SJR 3).

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.

Contingent on passage of a constitutional amendment (SJR 3) the bill's proposed increase in the standard residence homestead exemption would create a fiscal impact to the state. The proposed increases in the residence homestead exemptions 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 largely offset revenue losses.

Contingent on passage of a constitutional amendment (SJR 3) the bill's hold harmless provision would require the state to offset any school property tax revenue losses resulting from the additional homestead exemption amount. The bill's provision setting the residence homestead exemption amount at \$100,000 would provide a \$60,000 increase from the current amount. This fiscal analysis illustrates the estimated combined revenue loss from the proposed tax changes.

Contingent on passage of a constitutional amendment (SJR 3) the bill's provisions relating to limiting the growth in the appraised value of all real property to 5 percent per year would create a fiscal impact on the state. Value losses would occur in proportion to future real property growth rates.

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 \$7.7 billion in fiscal year 2024, \$8.6 billion in fiscal year 2025, increasing to \$12.2 billion in fiscal year 2028. Decreases to recapture payments resulting from the bill's provisions are expected to be significant but cannot be determined at this time.

This analysis assumes annual administrative costs of \$285,740 in fiscal year 2024, and \$300,027 beginning in fiscal year 2025. Administrative costs include salaries and benefits for one Programmer V and one Financial Analyst IV at the Texas Education Agency.

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 provisions of the bill related to increasing the homestead exemption would only apply to school districts.

The bill would result in decreases to school district property tax collections. Districts would receive additional state aid through the FSP to largely offset revenue losses.

Source Agencies: 304 Comptroller of Public Accounts

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