

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION

March 14, 2023

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

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: SB3 by Bettencourt (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.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB3, As Introduced : a negative impact of (\$1,404,077,027) 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	\$0
2025	(\$1,404,077,027)
2026	(\$1,509,172,027)
2027	(\$1,578,958,027)
2028	(\$1,614,401,027)

All Funds, Five-Year Impact:

<i>Fiscal Year</i>	<i>Probable Savings/(Cost) from General Revenue Fund 1</i>	<i>Probable Savings/(Cost) from Foundation School Fund 193</i>	<i>Probable Savings/(Cost) from Recapture Payments Atten Crdts 8905</i>	<i>Probable Revenue Gain/(Loss) from School Districts</i>
2024	\$0	\$0	\$0	\$0
2025	(\$300,027)	(\$1,403,777,000)	\$268,344,000	(\$1,653,488,000)
2026	(\$300,027)	(\$1,508,872,000)	\$288,491,000	(\$1,776,406,000)
2027	(\$300,027)	(\$1,578,658,000)	\$319,206,000	(\$1,861,350,000)
2028	(\$300,027)	(\$1,614,101,000)	\$325,426,000	(\$1,912,062,000)

<i>Fiscal Year</i>	<i>Change in Number of State Employees from FY 2023</i>
2024	0.0
2025	2.0
2026	2.0
2027	2.0
2028	2.0

Fiscal Analysis

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 \$70,000 and to require that the tax limitation for taxpayers who are age 65 and older or disabled (tax ceiling) be reduced to reflect the additional exemption.

The bill would amend the Education Code to entitle districts to additional state aid to the extent that a district's combined state and local revenue used to service eligible debt after the homestead exemption increase would be less than the state and local revenue that would have been available for debt service had the homestead exemption not increased.

The bill would further entitle districts to state aid to the extent that combined state and local Foundation School Program (FSP) revenues for maintenance and operations (M&O) with the increased homestead exemption would be less than the district's combined state and local revenue for M&O had the homestead exemption not increased.

The bill would amend Subchapter M, Chapter 403, of the Government Code, regarding the Comptroller's study of school district property values to require the Comptroller to calculate final taxable values for school districts based on the reduction in tax ceilings.

This bill would take effect on January 1, 2024, contingent on approval by the voters of an associated constitutional amendment (SJR 3).

Methodology

The bill's proposed increase in the residence homestead exemption would create a fiscal impact to the state. The proposed increase in the residence homestead exemption would reduce local school district property tax revenue available to fund district entitlement under the FSP beginning with tax year 2024 (fiscal year 2025). 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 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 \$70,000 would provide a \$30,000 increase from the current amount. This analysis incorporates the estimated loss from the proposed tax ceiling reductions.

The cost to the FSP is estimated to be \$1,403.8 million in fiscal year 2025, increasing to \$1,614.1 million in fiscal year 2028.

The cost to the FSP includes estimated decreases in Recapture Payments - Attendance Credits of \$268.3 million in fiscal year 2025, increasing to \$325.4 million in fiscal year 2028. 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.

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

Although the constitutional amendment in corresponding SJR 3 is self-enabling regarding the increased residence homestead exemption (and tax ceiling adjustment) and would by itself create a cost to school districts and the state, it is not self-enabling regarding the provisions requiring the state to fully compensate school districts for the property tax revenue lost to the proposed increase in the homestead exemption. As a result, the combined effects of SJR 3 and this bill are shown in the table, and not in the fiscal note for SJR 3.

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: 304 Comptroller of Public Accounts, 701 Texas Education Agency

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