LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION

March 19, 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 certain exemptions from ad valorem taxation by a school district applicable to residence homesteads, 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 amounts, and the protection of school districts against the resulting loss in local revenue.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for SB3, Committee Report 1st House, Substituted : a negative impact of ($3,555,314,767) through the biennium ending August 31, 2025.

General Revenue-Related Funds, Five- Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to *General Revenue Related Funds*
2024	($1,700,035,740)
2025	($1,855,279,027)
2026	($1,974,781,027)
2027	($2,031,064,027)
2028	($2,066,068,027)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *General Revenue Fund* 1	Probable Savings/(Cost) from *Foundation School Fund* 193	Probable Savings/(Cost) from *Recapture Payments Atten Crdts* 8905	Probable Revenue Gain/(Loss) from *School Districts*
2024	($285,740)	($1,699,750,000)	$275,974,000	($1,982,703,000)
2025	($300,027)	($1,854,979,000)	$349,474,000	($2,165,600,000)
2026	($300,027)	($1,974,481,000)	$376,738,000	($2,307,842,000)
2027	($300,027)	($2,030,764,000)	$407,559,000	($2,382,785,000)
2028	($300,027)	($2,065,768,000)	$416,716,000	($2,437,645,000)

Fiscal Year	*Change in Number of State Employees from FY 2023*
2024	2.0
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. The bill would also increase the additional mandatory school district homestead exemption for taxpayers who are age 65 and older or disabled from $10,000 to $30,000. The bill would require that the tax limitation for taxpayers who are age 65 and older or disabled (tax ceiling) be reduced to reflect the additional exemption amounts. 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 25 of the Tax Code, relating to Local Appraisal, to require the chief appraiser prepare supplemental appraisal records that reflect the increased $70,000 and $30,000 exemption amounts if appraisal records submitted to the appraisal review board include the taxable value of residence homesteads or show the amount of the exemptions in the 2023 tax year.

The bill would provide instructions on tax bill preparation, wording, and calculations due to the timing issue between when tax bills are mailed and the November election. The delinquency date for 2023 tax bill payment would be moved to March 1, 2024.

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 and additional tax ceiling adjustment 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 and additional tax ceiling adjustment 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.

The bill would provide direction for school districts with local revenue in excess of entitlement options for the timing of required elections if the Commissioner of Education determines the school district would not have a local revenue level in excess of entitlement after the proposed increases in homestead exemptions tax ceiling adjustments.

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

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

Certain provisions in the bill regarding implementation, tax bill preparation and options for school districts with local revenue in excess of entitlement take would take effect immediately upon enactment, assuming it receives the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect on the 91st day after the last day of the legislative session.

Methodology

The bill's proposed increase in both the standard residence homestead exemption and the increased additional exemption for over 65 or disabled taxpayers 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 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 while an increase in the additional exemption for over 65 or disabled taxpayers would provide an increase of $20,000. This fiscal analysis illustrates the estimated combined revenue loss from the proposed tax changes.

The cost to the Foundation School Program (FSP) is estimated to be $1,699.7 million in fiscal year 2024, $1,855.0 million in fiscal year 2025, increasing to $2,065.8 million in fiscal year 2028.

The cost to the FSP includes estimated decreases in Recapture Payments - Attendance Credits of $276.0 million in fiscal year 2024, $349.5 million in fiscal year 2025, increasing to $416.7 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 $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.

Although the constitutional amendment in corresponding SJR 3 is self-enabling regarding the increased residence homestead exemptions (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 below, 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

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