

BILL ANALYSIS

S.B. 4
By: Bettencourt
Ways & Means
Committee Report (Unamended)

BACKGROUND AND PURPOSE

Over the past several legislative sessions, the Texas Legislature has provided for significant increases in the amount of the general school district residence homestead property tax exemption, which have been approved by the voters, increasing the exemption amount from \$15,000 in 2015 to the current amount of \$100,000. However, the bill sponsor has informed the committee that further increasing the amount of this exemption would lower property taxes for millions of homeowners across the state if approved by the voters. S.B. 4 seeks to provide additional property tax relief to homeowners in Texas by increasing the amount of the general school district residence homestead property tax exemption from \$100,000 to \$140,000 while also providing protections for public school districts against a corresponding loss in revenue.

CRIMINAL JUSTICE IMPACT

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

S.B. 4 amends the Education Code and the Tax Code to provide for an increase in the amount of the general school district residence homestead property tax exemption and to provide for the protection of public school districts against certain losses in local revenue.

Provisions Contingent on Constitutional Amendment

Increase in Amount of General Residence Homestead Exemption

S.B. 4 increases the amount of the general school district residence homestead property tax exemption from \$100,000 to \$140,000. This increase applies only to a property tax year that begins on or after January 1, 2025.

Additional State Aid to Account for Increases in Residence Homestead Exemption

S.B. 4 entitles a school district, beginning with the 2025-2026 school year, to additional state aid to the extent that state and local revenue used to service eligible debt is less than the state and local revenue that would have been available to the district under state law providing for state aid to districts to account for increases in a residence homestead exemption as such state law existed on January 1, 2025, if any increase in the residence homestead exemption under the Texas Constitution, as proposed by the 89th Legislature, Regular Session, 2025, had not

occurred. The bill establishes that the additional state aid to districts beginning with the 2025-2026 school year is equal to the amount by which the loss of local interest and sinking (I&S) revenue for debt service attributable to any such increase in a residence homestead exemption is not offset by a gain in state aid for instructional facilities and the payment of existing district debt. The bill further establishes that local I&S revenue for debt service is limited to revenue required to service debt that is eligible as of January 1, 2025, including refunding of that debt. The limitation on the amount of state aid provided to assist with the payment of existing district debt does not apply for the purpose of determining additional state aid under the bill's provisions. The bill requires the commissioner of education, if the amount required to pay debt service on bonds issued by a district under state law governing tax bonds and maintenance taxes is less than the sum of state assistance provided for instructional facilities and the payment of existing district debt, including the amount of additional state aid provided under these bill provisions and the revenue from the district's I&S tax for a school year, except as otherwise provided by the bill, to reduce the amount of additional state aid provided under the bill by the difference between the following:

- the sum of state assistance provided for instructional facilities and the payment of existing district debt, including the amount of additional state aid provided under the bill, and the revenue from the district's I&S tax for the school year; and
- the amount required to pay debt service on bonds described by these bill provisions for the school year.

The amount of additional state aid provided under the bill may not be reduced under that requirement to an amount below the additional state aid to which the district is entitled under the bill.

S.B. 4 entitles a school district, beginning with the 2025-2026 school year, to additional state aid to the extent that state and local revenue under state law governing the foundation school program (FSP) and local revenue levels in excess of entitlement is less than the state and local revenue that would have been available to the district under such law as it existed on September 1, 2024, if any increase in the residence homestead exemption under the Texas Constitution as proposed by the 89th Legislature, Regular Session, 2025, had not occurred. The lesser of the district's currently adopted maintenance and operations (M&O) tax rate or the adopted M&O tax rate for the 2024 tax year is used for the purpose of determining that additional state aid.

Effective Date

S.B. 4 establishes that these provisions relating to an increase in the amount of the general school district residence homestead exemption and the provision of additional state aid to account for that increase take effect on the date on which the constitutional amendment proposed by S.J.R. 2, 89th Legislature, Regular Session, 2025, takes effect. If that constitutional amendment is not approved by the voters, those bill provisions have no effect.

Provisions Not Contingent on Constitutional Amendment

Limitation on Use of Additional State Aid

S.B. 4 restricts the use of additional state aid received by a school district under state law providing for such aid to account for certain increases in residence homestead exemptions and limitations on tax increases to payments for the principal of and interest on the bonds for which the district received the aid.

Calculation of Maximum Compressed Tax Rates

S.B. 4 requires the Texas Education Agency (TEA), in calculating and making available school districts' maximum compressed rates for the 2025-2026 school year, to calculate and make available the rates as if the increase in the residence homestead exemption under the Texas

Constitution as proposed by the 89th Legislature, Regular Session, 2025, took effect. This provision expires September 1, 2026.

S.B. 4 authorizes the commissioner of education, if the increase in the residence homestead exemption under the Texas Constitution as proposed by the 89th Legislature, Regular Session, 2025, does not take effect, to adjust school districts' maximum compressed rates for the 2025-2026 school year accordingly. The bill requires the commissioner, before making such an adjustment, to notify and receive approval from the Legislative Budget Board and the office of the governor. These provisions expire September 1, 2029.

Additional State Aid for Certain Districts Impacted by Compression

S.B. 4 revises the entitlement of certain school districts whose local revenue level was in excess of entitlement under the FSP and that received an adjustment under applicable state law regarding a reduction of that excess for the 2022-2023 school year to additional state aid to account for a reduction in the district's maximum compressed tax rate by S.B. 2, Acts of the 88th Legislature, 2nd Called Session, 2023, by doing the following:

- limiting the period of the entitlement to the 2023-2024 and 2024-2025 school years; and
- changing the amount of the entitlement from an amount equal to the amount of the adjustment for the 2022-2023 school year less the difference, if the difference is greater than zero, between the amount to which the district is entitled under the FSP for the current school year and the amount to which the district would be entitled under the FSP for the current school year if the district's maximum compressed tax rate had not been reduced by that act to an amount equal to the difference, if the difference is greater than zero, between the following:
 - the amount of state and local revenue that would have been available to the district under state law governing the FSP and options for local revenue levels in excess of entitlement for the 2023-2024 or 2024-2025 school year, as applicable, if the district's maximum compressed tax rate had not been reduced by that act; and
 - the amount of state and local revenue available to the district under state law governing the FSP and options for local revenue levels in excess of entitlement for the 2023-2024 or 2024-2025 school year, as applicable.

Options to Reduce Local Revenue Levels in Excess of Entitlement

S.B. 4, contingent on the constitutional amendment proposed by S.J.R. 2, 89th Legislature, Regular Session, 2025, being approved by the voters in an election held for that purpose, requires the commissioner, as soon as practicable after receiving revised property values that reflect adoption of the constitutional amendment, to review the local revenue level of public school districts in Texas and revise as necessary the notifications provided to each district following the annual review of local revenues for the 2025-2026 school year. This provision expires September 1, 2026.

S.B. 4 authorizes a district that has not previously held an election to approve an option to reduce a local revenue level in excess of the district's entitlement under the FSP and that enters into an agreement to exercise an option to do so for the 2025-2026 school year involving the purchase of daily attendance credit, educating nonresident students, or tax base consolidation with another district to request and receive approval from the commissioner to delay the date of the election otherwise required to be ordered before September 1. A district that receives such approval from the commissioner to delay an election may adopt a tax rate for the 2025 tax year before the commissioner certifies that the district has reduced its local revenue level to the level established by law. These provisions provision expire September 1, 2026.

S.B. 4 requires the commissioner to approve a district's request to delay the election if the commissioner determines that the district would not have a local revenue level in excess of

entitlement if the constitutional amendment proposed by S.J.R. 2, 89th Legislature, Regular Session, 2025, were approved by the voters. The bill requires the commissioner to set a date by which each district that receives approval to delay an election must order the election and requires the commissioner, not later than the 2026-2027 school year, to order detachment and annexation of district property or consolidation as necessary to reduce the district's excess local revenue to the level established by law for a district that receives approval to delay an election and subsequently fails to hold the election or does not receive voter approval at the election. These provisions expire September 1, 2027.

S.B. 4 establishes that, during the 2025-2026 school year, statutory provisions governing the date of an election held to approve an option to reduce local revenue levels in excess of entitlement do not apply to a district that receives approval from the commissioner of a request to delay the date of an election as provided by the bill. The bill requires the district to hold the election on a Tuesday or Saturday on or before a date specified by the commissioner and makes Election Code provisions regarding the uniform election dates inapplicable to the election. These provisions expire September 1, 2026.

S.B. 4 requires a district that receives approval of a request to delay the date of an election as provided by the bill to pay for credit purchased in equal monthly payments as determined by the commissioner beginning March 15, 2026, and ending August 15, 2026. Alternatively, the district may pay for credit purchased with one lump sum payment made not later than August 15, 2026, provided that the district notifies the commissioner of the district's election to pay through a lump sum not later than March 15, 2026. These provisions expire September 1, 2026.

S.B. 4 requires the commissioner to order any detachments and annexations of property for the 2025-2026 school year as a means of reducing local revenue levels in excess of entitlement as soon as practicable after the canvass of the votes on the constitutional amendment proposed by S.J.R. 2, 89th Legislature, Regular Session, 2025. This requirement expires September 1, 2026.

Transitional Tax Year Provisions

S.B. 4 requires an appraisal district's chief appraiser, when delivering the appraisal roll to the assessor for an applicable school district for the 2025 tax year, to include a provisional appraisal roll to account for the changes in law made by the bill. If the chief appraiser delivers a supplemental appraisal roll or correction to the appraisal roll to the school district's assessor before the effective date of the bill's provisions relating to an increase in the amount of the general school district residence homestead exemption and the provision of additional state aid to account for that increase, the chief appraiser must include provisional appraisal roll entries to account for the changes in law made by those provisions. If those provisions take effect:

- on the effective date of those provisions, the provisional appraisal roll, as supplemented and corrected, becomes the appraisal roll for the school district; and
- as soon as practicable after that date, the chief appraiser must correct the school district's appraisal roll as necessary to finally account for the changes in law made by those provisions.

S.B. 4 requires the assessor for a school district, on receipt of the appraisal roll for the 2025 tax year, to determine the total taxable value of property taxable by the district and the taxable value of new property as if the changes in law made by the bill were in effect for that tax year. The bill requires an officer or employee designated by a school district's governing body to calculate the district's no-new-revenue tax rate and the voter-approval tax rate (VATR) for the 2025 tax year as if the changes in law made by the bill were in effect for that tax year.

S.B. 4 requires, for purposes of state law providing for an automatic election to approve a school district's adopted tax rate that exceeds its VATR, that the district's VATR for the 2025 tax year be calculated as if the changes in law made by the bill were in effect for that tax year.

S.B. 4 requires the assessor for a school district to calculate the amount of tax imposed by the district on a residence homestead for the 2025 tax year as if the changes in law made by the bill were in effect for that tax year and also as if the changes made by the bill were not in effect for that tax year. The bill also requires the assessor to correct the district's tax roll for the 2025 tax year to reflect the results of the election to approve the constitutional amendment proposed by S.J.R. 2, 89th Legislature, Regular Session, 2025.

S.B. 4 provides the following with respect to the taxes imposed by a school district on a residence homestead for the 2025 tax year, applicable only if the changes in law made by the bill would lower the taxes imposed by the district on the property for that tax year:

- the assessor for the district must compute the amount of taxes imposed and the other information required for a property's tax bill as if the changes in law made by the bill were in effect for that tax year;
- the tax bill or the separate statement accompanying the tax bill must indicate that the tax bill is a provisional tax bill and include a statement, in substantially the same form as set out by the bill's provisions, indicating the following:
 - the amount the tax bill would have been if the changes in law made by the bill were not in effect for that tax year;
 - the difference between the amount that the tax bill would have been if the changes in law made by the bill were not in effect for that tax year and the amount that the tax bill is with those changes in effect;
 - the amount of the tax bill as lowered by the changes in law made by the bill and contingent on the approval by the voters at an election to be held November 4, 2025, of the constitutional amendment proposed by S.J.R. 2, 89th Legislature, Regular Session, 2025; and
 - the amount of the supplemental tax bill that will be mailed if the constitutional amendment is not approved by the voters;
- the tax bill prepared by the assessor for a district as provided by the bill's provisions and mailed as provided by applicable state law is considered to be a provisional tax bill until the canvass of the votes on the constitutional amendment proposed by S.J.R. 2, 89th Legislature, Regular Session, 2025, and if the constitutional amendment is approved by the voters, the tax bill is considered to be a final tax bill for the taxes imposed on the property for the 2025 tax year, and no additional tax bill is required to be mailed unless another provision of the Property Tax Code requires the mailing of a corrected tax bill; and
- if the constitutional amendment is not approved by the voters:
 - a tax bill prepared by the assessor as provided by the bill's provisions is considered to be a final tax bill but only as to the portion of the taxes imposed on the property for the 2025 tax year that are included in the bill;
 - the amount of taxes imposed by each school district on a residence homestead for the 2025 tax year is calculated as if the changes in law made by the bill were not in effect for that tax year; and
 - the assessor for each school district must prepare and mail a supplemental tax bill, by December 1 or as soon thereafter as practicable, in an amount equal to the difference between the amount of the tax bill if the changes in law made by the bill were not in effect for that tax year and the amount of the tax bill if that bill were in effect for that tax year.

The provisions of state law applicable to tax bills apply to such a supplemental tax bill, except as otherwise provided by the bill's provisions. Subject to certain exceptions provided under applicable state law, the taxes for which such a supplemental tax bill is mailed are due on receipt of the tax bill and are delinquent if not paid before March 1 of the year following the year in which imposed.

S.B. 4 establishes that these transitional provisions expire December 31, 2026.

EFFECTIVE DATE

Except as otherwise provided, on passage, or, if the bill does not receive the necessary vote, September 1, 2025.