LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

February 11, 2025

TO: Honorable Paul Bettencourt, Chair, Senate Committee on Local Government

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: **SB4** by Bettencourt (Relating to an increase in the amount of the exemption of residence homesteads from ad valorem taxation by a school district and the protection of school districts against certain losses in local revenue.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB4, As Introduced: a negative impact of ($1,035,602,146) through the biennium ending August 31, 2027.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five- Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to *General Revenue Related Funds*
2026	($465,483,918)
2027	($570,118,228)
2028	($181,109,222)
2029	($91,163,222)
2030	($62,077,222)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *General Revenue Fund* 1	Probable Savings/(Cost) from *Foundation School Fund* 193	Probable Revenue Gain/(Loss) from *Recapture Payments Atten Crdts* 8905	Probable Revenue Gain/(Loss) from *School Districts Levy Loss*
2026	($267,918)	($465,216,000)	($337,033,000)	($1,481,778,000)
2027	($550,228)	($569,568,000)	($410,100,000)	($1,612,775,000)
2028	($112,222)	($180,997,000)	($322,305,000)	($1,511,512,000)
2029	($112,222)	($91,051,000)	($367,107,000)	($1,550,557,000)
2030	($112,222)	($61,965,000)	($295,398,000)	($1,557,569,000)

Fiscal Year	*Change in Number of State Employees from FY 2025*
2026	1.0
2027	1.0
2028	1.0
2029	1.0
2030	1.0

Fiscal Analysis

The bill would amend the Tax Code to increase the mandatory homestead exemption for school district property taxation from $100,000 to $140,000.

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 existing 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 amend the Education Code to entitle districts to additional state aid to the extent that a district's combined state and local revenue used for maintenance and operations after the homestead exemption increase would be less than the state and local revenue to which the district would be entitled in the absence of the increased homestead exemption and increased tax rate compression provided by the 88th Legislature, compression provided to homeowners over 65 or disabled by the 87th Legislature, and the increased homestead exemption provided by this bill.

The bill would repeal provisions of the Education Code providing for increased state aid for certain districts impacted by compression and the limitation on tax increases on homesteads of the elderly or disabled.

The bill would amend the Education Code to provide for the reduction of the additional state aid for debt service if the sum of a district's interest and sinking tax collections and state assistance for servicing debt exceeds the amount required to service the district's debt.

Methodology

Contingent on the passage of a constitutional amendment (SJR 2) the bill's proposed increase in the standard residential homestead exemption would create a fiscal impact to the 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 fiscal year 2026. 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 2) the bill's hold harmless provisions would require the state to offset certain school property tax revenue losses resulting from the additional homestead exemption amount. The bill's provision setting the residence homestead exemption amount at $140,000 would provide a $40,000 increase from the current amount.

Under provisions of the Education Code, school district tax revenue losses due to the increased homestead exemption are partially transferred to the state. This analysis assumes state costs associated with increasing the homestead exemption to $140,000, including providing additional state aid to certain districts, would total $1,243.7 million in fiscal year 2026, $1,383.8 million in fiscal year 2027, decreasing to $957.0 million in fiscal year 2030. The remaining local revenue loss not transferred to the state would primarily result from districts not receiving additional state aid for debt service under the bill due to those districts receiving sufficient combined state aid and interest and sinking tax revenues to make required debt service payments.

Contingent on passage of a constitutional amendment (SJR 2) the bill's provisions repealing sections of the Education Code providing for increased state aid for certain districts impacted by compression and the limitation on tax increases on homesteads of the elderly or disabled would result in a savings to the state.

Provisions of the bill providing for the reduction of additional state aid for debt service would result in a savings to the state.

This analysis assumes provisions of the bill amending the existing additional state aid provisions would result in a state savings of approximately $778.5 million in fiscal year 2026 and $814.2 million in fiscal year 2027, increasing to $895.0 million in fiscal year 2030, excluding costs associated with providing additional state aid to certain districts following the enactment and subsequent voter approval of a constitutional amendment proposed by SJR 2 relating to increasing the residence homestead exemption to $140,000.

The combined cost to the state for all changes to the FSP would total $465.2 million in fiscal year 2026, $569.6 million in fiscal year 2027, decreasing to $62.0 million in fiscal year 2030.

This analysis assumes administrative costs of $267,918 in fiscal year 2026, $550,228 in fiscal year 2027, and $112,222 in subsequent years. Administrative costs include salaries and benefits for one Financial Analyst III and programming and hardware costs associated with implementing the changes to the FSP at the Texas Education Agency.

Technology

Technology costs include $146,002 in fiscal year 2026 and $438,006 in fiscal year 2027 for programming and hardware costs associated with implementing the changes to the FSP.

Local Government Impact

The provisions of the bill would only apply to school districts.

Source Agencies: 304 Comptroller of Public Accounts, 701 Texas Education Agency

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