LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 88TH LEGISLATURE 2nd CALLED SESSION 2023

July 12, 2023

TO: Honorable Morgan Meyer, Chair, House Committee on Ways & Means

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: **SB2** by Bettencourt (Relating to providing property tax relief through the public school finance system, exemptions, limitations on appraisals and taxes, and property tax administration; authorizing the imposition of a fee.), **As Engrossed**

Estimated Two-year Net Impact to General Revenue Related Funds for SB2, As Engrossed : a negative impact of ($12,700,000,000) 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	($6,100,000,000)
2025	($6,600,000,000)
2026	($7,000,000,000)
2027	($7,500,000,000)
2028	($6,700,000,000)

All Funds, Five-Year Impact:

Fiscal Year	**Probable Savings/(Cost) from *Foundation School Fund* 193**
2024	($6,100,000,000)
2025	($6,600,000,000)
2026	($7,000,000,000)
2027	($7,500,000,000)
2028	($6,700,000,000)

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 (MCR) rate for the 2023-2024 school year with an additional 10.7 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 10.7 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 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 amend Chapter 23 of the Tax Code, relating to Appraisal Methods and Procedures, to create a temporary limitation on annual appraised value increases of 20 percent for certain real property other than a residence homestead. The proposed value limitation would apply only to property with an appraised value of less than $5.0 million in the year in which it first qualifies for the limitation. A residence homestead would maintain the 10 percent annual appraisal growth limitation that exists under current law.

The bill would amend Chapter 6 of the Tax Code, relating to Local Administration, to require that an appraisal district board of directors in a county with a population of 75,000 or more be made up of five directors appointed by the taxing units that participate in the district, three directors elected by the voters in the county, and the county assessor-collector as an ex officio director.

Methodology

The bill's proposed increase in the standard residence homestead exemption, MCR reduction, and temporary value limitation would create a fiscal impact to the state. The proposed increase in the residence homestead exemptions and reduction in MCR would reduce local school district property tax revenue available to fund district entitlement under the FSP beginning with tax year 2023 (fiscal year 2024). The temporary value limitation would reduce local school district property tax revenue available to fund district entitlement under the FSP in tax years 2024 through 2026 (fiscal years 2025 through 2027). 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.

Local Government Impact

The provisions of the bill related to the MCR and homestead exemption 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.

The bill would require appraisal districts to limit the growth in the appraised value of select real property other than residence homesteads to 20 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 appraisal growth limitation proposed by the bill.

The provisions of the bill requiring counties with a population of 75,000 or more to hold elections for directors on the central appraisal district board of directors could result in costs to the counties associated with administering those elections.

Source Agencies:

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