

BILL ANALYSIS

Senate Research Center
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S.B. 278
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Finance
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AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

The mandatory \$15,000 homestead exemption that applies to school district property taxes has not been adjusted since it was enacted by voters in 1997. Since that time, the average value of a home in Texas has more than doubled but the homestead exemption, in inflation-adjusted dollars, has lost one-third of its value.

S.B. 278 is enabling legislation for a constitutional amendment that would increase the homestead exemption that applies to school property taxes from \$15,000 to \$25,000 for tax year 2016. For each successive year, the comptroller of public accounts of the State of Texas would calculate the level of inflation based upon the consumer price index and adjust the exemption by a corresponding amount. This will ensure that the homestead exemption keeps up with inflation. Homeowners who are disabled or 65 years of age or older will receive an equivalent reduction based upon the additional exemption and the inflation adjustment.

This bill also holds school districts harmless for lost tax revenue by increasing the state contribution by a corresponding amount.

As proposed, S.B. 278 amends current law relating to an increase in the amount of the residence homestead exemption from ad valorem taxation by a school district and the increase of the exemption amount in subsequent years to reflect inflation, a reduction of the limitation on the total amount of ad valorem taxes that may be imposed by a school district on the homestead of a disabled or elderly person to reflect the increased exemption amounts, and the protection of school districts against the resulting loss in local revenue.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Section 11.13, Tax Code, by amending Subsection (b) and adding Subsection (b-1), as follows:

(b) Entitles an adult to exemption from taxation by a school district of a portion of the appraised value of the adult's residence homestead in the amount provided by this subsection, except that only \$5,000 of the exemption applies to an entity operating under former Chapter 17, 18, 25, 26, 27, or 28, Education Code, as those chapters existed on May 1, 1995, as permitted by Section 11.301 (Application of Former Law), Education Code, rather than providing that an adult is entitled to exemption from taxation by a school district of \$15,000 of the appraised value of the adult's residence homestead, except that \$10,000 of the exemption does not apply to an entity operating under former Chapter 17, 18, 25, 26, 27, or 28, Education Code, as those chapters existed on May 1, 1995, as permitted by Section 11.301, Education Code. Provides that for the 2016 tax year, the amount of the exemption is \$25,000. Requires that for each subsequent tax year, the amount of the exemption be calculated by the comptroller of public accounts of the State of Texas (comptroller) by multiplying the amount of the exemption under this subsection for the preceding tax year by the inflation rate and adding that amount to the

amount of that exemption for the preceding tax year. Requires the comptroller, each year, not later than March 15, to calculate the amount of the exemption for the current tax year and publish that amount in the Texas Register.

(b-1) Defines "consumer price index" and "inflation rate."

SECTION 2. Amends Section 11.26(a), Tax Code, as follows:

(a) Provides that if the first tax year the individual qualified the residence homestead for the exemption provided by Section 11.13(c) (relating to an exemption from taxation by a school district of \$10,000 of the appraised value of residential service) for individuals 65 years of age or older or disabled was a tax year before the 2016 tax year, rather than the 1997 tax year, the amount of the limitation provided by this section is the amount of tax the school district imposed for the 2015 tax year, rather than the 1996 tax year, less an amount equal to the amount determined by multiplying \$10,000 times the tax rate of the school district for the 2016 tax year plus any 2016 tax, attributable to improvements made in 2015 other than improvements made to comply with governmental regulations or repairs. Provides that if the first tax year the individual qualified the residence homestead for the exemption provided by Section 11.13(c) for individuals 65 years of age or older or disabled was a tax year before a tax year in which the amount of the exemption provided by Section 11.13(b) is increased to reflect inflation, the amount of the limitation provided by this section is the amount of tax the school district imposed for the tax year preceding the tax year in which the amount of the exemption is increased less an amount equal to the amount determined by multiplying the amount of the increase times the tax rate of the school district for the year in which the amount of the exemption is increased, plus any tax for the tax year in which the amount of the exemption is increased attributable to improvements made in the preceding tax year, other than improvements made to comply with governmental regulations or repairs. Provides that except as provided by Subsection (b) (relating to how improvements on an individual's home changes the rate of tax), a limitation on tax increases provided by this section on a residence homestead computed under this subsection continues to apply to the homestead in subsequent tax years until the limitation expires. Makes conforming changes.

SECTION 3. Amends Subchapter A, Chapter 41, Education Code, by adding Section 41.0011, as follows:

Sec. 41.0011. COMPUTATION OF WEALTH PER STUDENT FOR SCHOOL YEAR IN WHICH HOMESTEAD EXEMPTION INCREASED. Provides that, notwithstanding any other provisions in this chapter, in computing a school district's wealth per student for a school year that begins in a tax year in which the amount of the residence homestead exemption under Section 1-b(c) (relating to exemptions from ad valorem taxation for general elementary and secondary public school purpose), Article VIII, Texas Constitution, is increased and the amount of the limitation on tax increases under Section 1-b(d) (prohibiting the total amount of ad valorem tax imposed on a homestead with an exemption for general elementary and secondary public school from being increased while the exemption remains under certain circumstances), Article VIII, Texas Constitution, is reduced to reflect the increased exemption amount, a school district's taxable value of property under Subchapter M (Study of School District Property Values), Chapter 403, Government Code, is determined as if the increase in the homestead exemption under Section 1-b(c), Article VIII, Texas Constitution, and the additional limitation on tax increases under Section 1-b(d), Article VIII, Texas Constitution, had been in effect for the preceding tax year.

SECTION 4. Amends Subchapter E, Chapter 42, Education Code, by adding Section 42.2512, as follows:

Sec. 42.2512. ADDITIONAL STATE AID FOR HOMESTEAD EXEMPTION. (a) Provides that this section applies only to a school year that begins in a tax year in which the amount of the residence homestead exemption under Section 1-b(c), Article VIII, Texas Constitution, is increased and the amount of the limitation on tax increases under

Section 1-b(d), Article VIII, Texas Constitution, is reduced to reflect the increased exemption amount.

(b) Provides that notwithstanding any other provision of this chapter, in computing state aid to a school district for a school year to which this section applies, the district's taxable value of property under Subchapter M, Chapter 403, Government Code, is determined as if the increase in the residence homestead exemption and the additional limitation on tax increases described by Subsection (a) had been in effect for the preceding tax year.

(c) Entitles a school district to additional state aid for a school year to which this section applies to the extent that state aid under this chapter based on the determination of the district's taxable value of property as provided by Subsection (b) does not fully compensate the district for ad valorem tax revenue lost due to the increase in the residence homestead exemption and the additional limitation on tax increases described by Subsection (a). Requires the commissioner of education (commissioner), using information provided by the comptroller, to compute the amount of additional state aid to which a district is entitled under this subsection. Provides that a determination by the commissioner under this subsection is final and may not be appealed.

SECTION 5. Amends Chapter 46, Education Code, by adding Subchapter D, as follows:

SUBCHAPTER D. ADDITIONAL STATE ASSISTANCE

Sec. 46.101. ADDITIONAL STATE ASSISTANCE FOR HOMESTEAD EXEMPTION.

(a) Entitles a school district that does not receive state assistance under Subchapter B (Assistance With Payment of Existing Debt) for the district's tax effort to pay the principal of and interest on eligible bonds, as defined by Section 46.033 (Eligible Bonds), to state assistance to fully compensate the district for ad valorem tax revenue for that tax effort lost due to an increase in the residence homestead exemption under Section 1-b(c), Article VIII, Texas Constitution, and a reduction of the amount of the limitation on tax increases under Section 1-b(d), Article VIII, Texas Constitution, to reflect the increased exemption amount.

(b) Requires the commissioner to compute the amount of assistance to which a school district is entitled under Subsection (a). Provides that a determination by the commissioner under this section is final and may not be appealed.

SECTION 6. Amends Section 403.302(j), Government Code, as follows:

(j) Requires the comptroller, for the purposes of Chapter 42 (Foundation School Program), Education Code, to certify to the commissioner:

(1) Redesignates existing Subdivision (2) as Subdivision (1) and makes a nonsubstantive change;

(2) Redesignates existing Subdivision (3) as Subdivision (2) and makes a nonsubstantive change;

(3) for the 2016 tax year, a final value for each school district computed on a residence homestead exemption under Section 1-b(c), Article VIII, Texas Constitution, of \$25,000 and the effect of the additional limitation on ad valorem tax increases under Section 1-b(d), Article VIII, Texas Constitution, as proposed by the joint resolution to amend that section adopted by the 84th Legislature, Regular Session, 2015; and

(4) for each tax year after the 2016 tax year, a final value for each school district computed on the amount of the residence homestead exemption under Section 1-b(c), Article VIII, Texas Constitution, in effect for that tax

year and the effect of any reduction of the limitation on ad valorem tax increases under Section 1-b(d), Article VIII, Texas Constitution, to reflect any increase in the amount of the exemption from the amount in effect for the 2016 tax year.

Deletes existing text stating that a final value for each school district computed on a residence homestead exemption under Section 1-b(c), Article VIII, Texas Constitution, of \$5,000,

SECTION 7. Provides that the changes in law made by this Act to Sections 11.13 and 11.26, Tax Code, apply only to an ad valorem tax year that begins on or after January 1, 2016.

SECTION 8. Effective date: January 1, 2016, contingent upon approval by the voters of the constitutional amendment relating to increasing the amount of the residence homestead exemption from ad valorem taxation for public school purposes from \$15,000 to \$25,000, providing for the increase of the exemption amount in subsequent years to reflect inflation, and providing for a reduction of the limitation on the total amount of ad valorem taxes that may be imposed for those purposes on the homestead of a disabled or elderly person.