LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

May 21, 2025

TO: Honorable Dan Patrick, Lieutenant Governor, Senate

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 Passed 2nd House**

Estimated Two-year Net Impact to General Revenue Related Funds for SB4, As Passed 2nd House: a negative impact of ($2,743,461,146) through the biennium ending August 31, 2027.

This analysis assumes a portion of the cost associated with providing additional state aid to offset the loss in local interest and sinking revenue under Education Code, Section 46.071 cannot be determined due to insufficient data, however, this analysis assumes the fiscal impact could be significant.

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	($1,324,464,918)
2027	($1,418,996,228)
2028	($1,070,834,222)
2029	($1,010,481,222)
2030	($1,020,163,222)

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)	($1,324,197,000)	($337,033,000)	($1,481,778,000)
2027	($550,228)	($1,418,446,000)	($410,100,000)	($1,612,775,000)
2028	($112,222)	($1,070,722,000)	($322,305,000)	($1,511,512,000)
2029	($112,222)	($1,010,369,000)	($367,107,000)	($1,550,557,000)
2030	($112,222)	($1,020,051,000)	($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 if necessary to meet the minimum payment on eligible debt as of September 1, 2025.

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 amend the Education Code, Section 48.283, to ensure certain districts continue to receive additional state aid to offset a loss in state and local operations revenue resulting from the reduction in the district's Maximum Compressed Rate (MCR) following Senate Bill 2, Eighty-eighth Legislature, Second Called Session.

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 $1,324.2 million in fiscal year 2026, $1,418.4 million in fiscal year 2027, decreasing to $1020.1 million in fiscal year 2030. The cost to the FSP includes estimated decreases in Recapture Payments - Attendance Credits of $337.0 million in fiscal year 2026, $410.1 million in fiscal year 2027, decreasing to $295.4 million in fiscal year 2030 as a result of school district tax revenue loss. The decrease in recapture is reflected as a revenue loss in the table above because recapture is appropriated as a method of finance for the FSP in the General Appropriations Act.

This analysis assumes a portion of the cost associated with providing additional state aid to offset the loss in local interest and sinking revenue under Education Code, Section 46.071, that would result from an increase to the state mandated homestead exemption, cannot be determined due to insufficient data related to the amount of debt service that would be eligible as of September 1, 2025; however, this analysis assumes the fiscal impact could be significant.

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

LBB Staff: JMc, KK, MJe, NV, SD, BRI, SZ