

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION**

**March 11, 2003**

**TO:** Honorable Fred Hill, Chair, House Committee on Local Government Ways and Means

**FROM:** John Keel, Director, Legislative Budget Board

**IN RE: HB474** by Wong (Relating to the limitation on the maximum average annual percentage increase in the appraised value of a residence homestead for ad valorem tax purposes.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB474, As Introduced: a positive impact of \$2,239,000 through the biennium ending August 31, 2005.

**General Revenue-Related Funds, Five-Year Impact:**

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	\$0
2005	\$2,239,000
2006	(\$91,906,000)
2007	(\$129,283,000)
2008	(\$133,546,000)

**All Funds, Five-Year Impact:**

Fiscal Year	Probable Revenue Gain/(Loss) from <i>GENERAL REVENUE FUND 1</i>	Probable Revenue Gain/(Loss) from <i>FOUNDATION SCHOOL FUND 193</i>	Probable Revenue Gain/(Loss) from <i>Cities</i>	Probable Revenue Gain/(Loss) from <i>Counties</i>
2004	\$0	\$0	\$0	\$0
2005	\$2,239,000	\$0	(\$33,089,000)	(\$19,917,000)
2006	\$4,166,000	(\$96,072,000)	(\$46,325,000)	(\$27,884,000)
2007	\$5,217,000	(\$134,500,000)	(\$48,641,000)	(\$29,278,000)
2008	\$7,679,000	(\$141,225,000)	(\$51,073,000)	(\$30,742,000)

Fiscal Year	Probable Revenue Gain/(Loss) from <i>School Districts</i>
2004	\$0
2005	(\$96,072,000)
2006	(\$38,429,000)
2007	(\$6,725,000)
2008	(\$7,061,000)

**Fiscal Analysis**

The proposed bill would reduce the current 10 percent per year cap on homestead appraisal increases to five percent. Actual 2002 reported school district value losses to the 10 percent cap were \$14.2

billion. This translates to a 2002 revenue loss to school districts of over \$225 million. For the purposes of this analysis, an annual five percent statewide residential growth rate in pre-tax appraisals is projected.

The estimate assumes the appraised value of properties currently subject to the cap would not be increased to market value by passage of the proposed bill. As a result, the existing base stock of capped properties becomes the starting point for the estimate, and the proposed reduced percentage cap would increase the loss attributable to these properties, as well as increasing the number of properties added to the "capped" stock each year.

### **Methodology**

The projected growth rate was compared to the recent historical growth rate to predict a fiscal 2003 loss under current law. The total predicted loss under the proposed cap was estimated by increasing the predicted fiscal 2003 loss by the ratio of the proposed cap to the old cap. The predicted fiscal 2003 loss was subtracted from the total predicted loss under the proposed cap to estimate the incremental loss. The predicted fiscal 2003 loss was used as a base to project future losses.

Losses were phased in over the first two years and trended at five percent through the projection period to account for value and rate increases. School district losses would shift to the state after a one-year lag through the operation of the school funding formulas.

The Comptroller's office estimated the dynamic tax feedback effects which are shown only with respect to the gain/(loss) incurred by the General Revenue Fund 0001.

### **Local Government Impact**

The fiscal impact on units of local government are reflected in the above tables.

**Source Agencies:** 304 Comptroller Of Public Accounts

**LBB Staff:** JK, JO, SD, WP, BR