

LEGISLATIVE BUDGET BOARD

Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 30, 2003

TO: Honorable Ron Wilson, Chair, House Committee on Ways & Means

FROM: John Keel, Director, Legislative Budget Board

IN RE: HB3072 by Wohlgemuth (Relating to the determination of school district property values and the accountability of appraisal district operations.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3072, As Introduced: a negative impact of (\$12,197,000) through the biennium ending August 31, 2005.

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
2004	(\$7,748,000)
2005	(\$4,449,000)
2006	(\$6,096,000)
2007	(\$6,401,000)
2008	(\$6,721,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable (Cost) from FOUNDATION SCHOOL FUND 193	Probable Revenue Gain from School Districts
2004	(\$7,748,000)	\$7,748,000
2005	(\$4,449,000)	\$4,449,000
2006	(\$6,096,000)	\$6,096,000
2007	(\$6,401,000)	\$6,401,000
2008	(\$6,721,000)	\$6,721,000

Fiscal Analysis

The bill would amend sections of the Government Code and Tax Code regarding the annual Property Value Study (PVS) conducted by the Comptroller's Office.

The bill has three basic components: 1) establishing a temporary "grace period" for state funding to school districts that are eligible; 2) enforcing accountability measures through mandatory appraisal standards review for those eligible districts and through discretionary audits of appraisal districts; and 3) technical changes addressing school funding equity and audit and reporting procedures.

To be eligible for a grace period, a school district would have to have two consecutive years of local value assignments by the PVS. If in the third year the PVS determined that the school district had state value, it would be assigned a substituted local value for that year and the following year. This would

be the "grace" period for state funding to the eligible school district. School districts that appraised property higher than the amount determined to be valid (or state value) in the PVS would be assigned local value for purposes of school funding. This provision would address the current situation where a school district is assigned the lower state value and therefore gets more state funding, while at the same time receiving more taxes on higher values locally.

All school districts would be assigned local values for the study year currently under review by the Comptroller. This would constitute an amnesty provision that would benefit all school districts for the 2003-2004 school year. The districts would still have to appeal the findings of the PVS, if they were determined to have state value, to establish their eligibility qualifications. They would not be penalized, however, in their state funding for the upcoming school year. This would be a one-time only provision. Beginning with the 2003 study year (affecting school funding for 2004-05), a school district would have to have two consecutive years of local value to be eligible to have a substituted local value in the third year. The "grace" period would exist for two years to allow enough time for the appraisal district to correct problems.

During the first year of the grace period, the Comptroller would have to conduct an appraisal standards review of the appraisal district in which the school district was located. Failure to comply with the recommendations within one year would result in the appointment of a board of conservators by the district judges of the county and paid for by the appraisal district.

Methodology

Section 403.302 of the Government Code requires the Comptroller to conduct a property value study to determine the total taxable value for each school district. Total taxable value is an element in the state's school funding formula. Passage of this bill could cause a reduction in school district taxable values reported to the Commissioner of Education by the Comptroller.

For fiscal 2004, all school districts would get local value. The Comptroller's staff estimates that the five-year average cost of all school districts receiving local value is about \$7.7 million. The cost is minimized by giving local value to districts that got state value lower than their local value in the past.

For fiscal 2005, all school districts that got local value two years in a row and then got state value would get a substitution of local value. Based on historical data, the Comptroller's staff estimates that this would amount to 57 percent of the districts that get state value, so the cost would be 57 percent of the cost of all school districts getting state value.

For fiscal 2006, a new group of school districts would get a substituted local value, and 32 percent of the old batch would get a substituted local value (the balance of districts would get local value on their own).

For fiscal 2007 and forward, a new group of school districts would get a substituted local value, 32 percent of the last group would get a substituted local value, and the oldest group would roll off.

An annual trend of five percent was used to account for growth in values and rates.

Local Government Impact

The impact on local school districts is shown in the above table.

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

LBB Staff: JK, JO, SD, WP, DLBe