LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

May 6, 2003

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

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HB3223** by Bohac (Relating to limiting the maximum average annual increase in the appraised value of real property for ad valorem tax purposes.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3223, Committee Report 1st House, Substituted: an impact of $0 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	$0
2006	$0
2007	$0
2008	$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from *Counties*	Probable Revenue (Loss) from *Cities*
2004	$0	$0
2005	($57,250,000)	($95,110,000)
2006	($80,150,000)	($133,154,000)
2007	$0	$0
2008	$0	$0

Fiscal Analysis

The bill would add a new section to and amend existing sections of the Tax Code relating to taxing units other than school districts, to reduce the current 10 percent maximum annual percentage cap in the appraised value of a residence homestead to a maximum of 5 percent and expand the application of the cap to include all real property.

The current 10 percent cap on residence homesteads for school taxes would remain in effect.

This limitation in growth of appraised value would expire December 31, 2005. On January 1, 2006 the applicable sections of the Tax Code would revert to current law.

Methodology

Passage of this bill would have no impact on school district taxes nor the state's contribution to school districts.

For the purposes of this analysis, the Comptroller's staff projected an annual 5 percent statewide residential growth rate. The estimate assumes the appraised value of properties currently subject to the cap would not be increased to market value by passage of the 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.

The Comptroller's staff compared the projected growth rate 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 bill to estimate the incremental loss. The predicted fiscal 2003 loss was used as a base to project future losses.

A real property to homestead multiplier was calculated by comparing the value of all real property to the value of homestead property. The multiplier was used to extend the homestead loss to all real property.

Losses were phased in over the first two years and trended at 5 percent through the projection period to account for value and rate increases.

Local Government Impact

The impact to units of local government is shown in the above tables.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JK, SD, WP, DLBe