

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

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

**April 27, 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 to five percent.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB3223, As Introduced: a positive impact of \$6,480,000 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	\$0
2005	\$6,480,000
2006	(\$263,103,000)
2007	(\$368,857,000)
2008	(\$379,690,000)

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

Fiscal Year	Probable Revenue Gain from <i>GENERAL REVENUE FUND 1</i>	Probable Savings/ (Cost) from <i>FOUNDATION SCHOOL FUND 193</i>	Probable Revenue (Loss) from <i>School Districts</i>	Probable Revenue (Loss) from <i>Cities</i>
2004	\$0	\$0	\$0	\$0
2005	\$6,480,000	\$0	(\$276,145,000)	(\$95,110,000)
2006	\$13,042,000	(\$276,145,000)	(\$110,458,000)	(\$133,154,000)
2007	\$17,746,000	(\$386,603,000)	(\$19,330,000)	(\$139,812,000)
2008	\$26,244,000	(\$405,934,000)	(\$20,297,000)	(\$146,803,000)

Fiscal Year	Probable Revenue (Loss) from <i>Counties</i>
2004	\$0
2005	(\$57,250,000)
2006	(\$80,150,000)
2007	(\$84,157,000)
2008	(\$88,365,000)

## **Fiscal Analysis**

The bill would reduce the current 10 percent maximum annual percentage cap in the appraised value of a residence homestead to a maximum of five percent and expand the application of the cap to include all real property. The bill would take effect January 1, 2004, contingent upon passage of a constitutional amendment authorizing such a limitation.

## **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 would reduce school district taxable values reported to the Commissioner of Education by the Comptroller and increase costs to the Foundation School Fund.

The 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 are \$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 is projected.

This 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.

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 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 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 formula.

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

## **Local Government Impact**

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

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

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