LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

May 10, 2003

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

FROM: John Keel, Director, Legislative Budget Board

IN RE: **SB671** by Staples (Relating to the determination of school district property values and the accountability of appraisal district operations.), **As Engrossed**

Estimated Two-year Net Impact to General Revenue Related Funds for SB671, As Engrossed: an impact of $0 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	$0
2006	($1,956,000)
2007	($2,680,000)
2008	($2,814,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *FOUNDATION SCHOOL FUND* 193	Probable Revenue Gain/(Loss) from *School Districts*
2004	$0	$0
2005	$0	$0
2006	($1,956,000)	$1,956,000
2007	($2,680,000)	$2,680,000
2008	($2,814,000)	$2,814,000

Fiscal Analysis

This bill would amend sections of the Government Code and the 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 the proposed 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. A substituted local value would be assigned only if, in the most recent annual study, the aggregate local value of all the categories of property sampled by the Comptroller were not less than 95 percent of the lower limit of the margin of error, as determined by the Comptroller, of the aggregate value, as determined by the Comptroller, of all categories of property sampled by the Comptroller. 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.)

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. In fiscal 2004 and 2005, the bill would earmark funds for districts that met two criteria: 1) the Comptroller assigned them a state value higher than their local taxable value and, as a result, they received less state funding than they expected, and 2) they had a maintenance and operations tax rate higher than $1.42.

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

In some school districts, the Comptroller's property value study certifies to the Texas Education Agency a state value lower than the district's local taxable value. These school districts are appraising property at more than market value and are levying taxes on the excessive value. Through the school funding system, these districts are being rewarded for this over-taxation by receiving extra funding based on the lower certified state value. For fiscal 2004 and forward, the Comptroller would no longer certify a state value lower than a school district's local value, which would end the practice of rewarding over-appraisal. The Comptroller's staff estimates that this would free-up state funds of approximately $3.6 million in fiscal 2004 and $3.8 million in fiscal 2005.

In fiscal 2004 and 2005, the bill would earmark these funds for districts that meet two criteria: 1) the Comptroller assigned them a state value higher than their local taxable value and, as a result, they received less state funding than they expected, and 2) they had an maintenance and operations tax rate higher than $1.42. The Comptroller's staff estimates that the net result to the state for fiscal 2004 and fiscal 2005 would be zero. Although the earmarked districts would receive additional funds, other districts that were over-appraising property would lose an identical amount, so the net school district effect would be zero for the biennium.

The grace period would be afforded to eligible school districts in study year 2004, which would affect fiscal 2006 funding. For study year 2004, all ISDs that had a two-year history of local value, and then got state value (eligible districts) would get a substitution of local value. Based on historical data, the Comptroller's staff estimated the number of affected districts and the attendant state cost. The restriction requiring that, to be eligible, a school district's local value would have to be more than 95 percent of the value of the lower limit of the margin of error would result in a further reduction in cost estimated based on the historical number of school districts with a certified state value falling below the threshold.

For study year 2005 (affecting fiscal 2007 funding), a new group of school districts would get a substituted local value, plus 32 percent of the old batch would get a substituted local value. The balance of districts would get local value on their own.

For study year 2006 and forward (affecting funding in fiscal 2008 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.

The Comptroller's staff used an annual trend of five percent to account for growth in values and rates.

Local Government Impact

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

Source Agencies: 304 Comptroller of Public Accounts
LBB Staff: JK, SD, WP, DLBe