

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

**FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION**

**April 6, 2005**

**TO:** Honorable Frank Madla, Chair, Senate Committee on Intergovernmental Relations

**FROM:** John S. O'Brien, Deputy Director, Legislative Budget Board

**IN RE: SB724** by Lucio (Relating to the appraisal for ad valorem taxation of certain property used to provide low-income housing.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for SB724, As Introduced: an impact of \$0 through the biennium ending August 31, 2007.

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
2006	\$0
2007	\$0
2008	(\$8,583,000)
2009	(\$9,841,000)
2010	(\$10,709,000)

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

Fiscal Year	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>	Probable Revenue (Loss) from <i>Counties</i>
2006	\$0	\$0	\$0	\$0
2007	\$0	(\$8,583,000)	(\$3,197,000)	(\$2,071,000)
2008	(\$8,583,000)	(\$1,258,000)	(\$3,739,000)	(\$2,410,000)
2009	(\$9,841,000)	(\$869,000)	(\$4,157,000)	(\$2,665,000)
2010	(\$10,709,000)	\$1,988,000	(\$3,458,000)	(\$2,206,000)

**Fiscal Analysis**

The bill would amend Section 11.1825 of the Water Code, relating to the appraisal of certain property used to provide low-income housing. **Note:** For the purposes of this fiscal note, it was assumed that the intention was to amend Section 11.1825 of the Tax Code.

For property that qualifies for the Organizations Constructing or Rehabilitating Low-Income Housing exemption, the chief appraiser would have to: 1) use the income method of appraisal, 2) consider rent and income restrictions, and 3) use a capitalization rate of 13.5 percent.

The bill would repeal Section 11.1825(r), which requires the chief appraiser to annually publish the capitalization rate to be used for the tax year in appraising property under Section 11.825.

### **Methodology**

The Comptroller's office obtained historical costs of the existing exemption for Community Housing Development Organizations (CHODO) property from appraisal districts. The historical costs were used to project future costs under current law.

The bill would establish a capitalization rate of 13.5 percent to be used in the income appraisal method required for property appraised under Section 11.1825. Because this capitalization rate would exceed the market capitalization rate, there would be a value loss. The difference between the market capitalization rate and the capitalization rate specified in the bill was estimated for each year of the projection period. The estimated differences in the market and proposed capitalization rates were applied to the projected current costs under current law. The capitalization rate difference resulted in a value loss for each year of the projection period.

The appropriate taxing unit rates were applied to the yearly value losses to estimate a tax levy loss for counties, cities, and school districts. Because the state offsets the school district losses after a one-year lag through the operation of the school funding formula, state losses would begin in fiscal 2008.

**Note:** The bill, as written, would amend Section 11.1825(q) of the Water Code. For the purposes of this fiscal note, it was assumed that the intention was to amend Section 11.1825(q) of the Tax Code and the fiscal implications in the table reflect that assumption.

### **Local Government Impact**

In addition to the amounts listed in the tables, special districts would also realize a reduction in taxable property values and the related ad valorem tax revenue.

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

**LBB Staff:** JOB, DLBa, SD, WP, DLBe