LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

April 29, 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 tax purposes of certain property used to provide low-income or moderate-income housing.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for SB724, Committee Report 1st House, Substituted: 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	($12,322,000)
2009	($14,221,000)
2010	($16,382,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable (Cost) from FOUNDATION SCHOOL FUND 193	Probable Revenue (Loss) from School Districts	Probable Revenue (Loss) from Cities	Probable Revenue (Loss) from Counties
2006	$0	$0	$0	$0
2007	$0	($12,322,000)	($4,589,000)	($2,973,000)
2008	($12,322,000)	($1,899,000)	($5,404,000)	($3,482,000)
2009	($14,221,000)	($2,161,000)	($6,359,000)	($4,077,000)
2010	($16,382,000)	($2,482,000)	($7,479,000)	($4,772,000)

Fiscal Analysis

The bill would require the chief appraiser to use a new appraisal method when appraising real property that: 1) is rented to low-income or moderate-income persons, who satisfy the organization's income eligibility requirements; 2) was financed under the low-income housing tax credit program in Chapter 2306 of the Government Code; 3) does not receive an exemption under Sections 11.182 or 11.1825 of the Tax code; and 4) is not subject to an agreement with any taxing unit to make payments to the taxing unit instead of taxes.

The bill would require the chief appraiser to use the income method of appraisal and to apply a capitalization rate determined by adding eight percentage points to the prime rate as published in the

Wall Street Journal on the first day of each calendar year that is not a Saturday, Sunday, or legal holiday. The net operating income capitalized would be inclusive of all property taxes.

The bill would require that the appraised value of real property appraised under the proposed method would be the market value of the property subject to appeal for the purpose of the Comptroller's School Property Value Study conducted under Section 403.302 of the Government Code.

Methodology

The bill would specify a capitalization rate of 8 percent above the prime rate to be used in the income appraisal method required for certain rent-restricted property under current law. Because this capitalization rate is above the market capitalization rate for many rent-restricted properties, the bill would cause a value loss. The Comptroller's office estimated the difference between the market capitalization rate and the capitalization rate specified in the bill for each year of the projection period. The estimated differences in the market and proposed capitalization rate were applied to projected rent restricted property value. The capitalization rate difference resulted in a value loss under the bill 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. The state offsets the school district losses after a one-year lag through the operation of the school funding formula, creating state losses beginning in fiscal year 2008.

Local Government Impact

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

Source Agencies: 304 Comptroller of Public Accounts
LBB Staff: JOB, DLBa, WP, DLBe