

LEGISLATIVE BUDGET BOARD

Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

Revision 1

May 18, 2005

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

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

IN RE: SB1351 by Williams (Relating to the appeal of certain ad valorem tax determinations through binding arbitration.), **As Engrossed**

No significant fiscal implication to the State is anticipated.

The bill would create a property owner right to binding arbitration as an alternative to district court judicial appeal of an ARB determination, limited to real property appraised at \$1 million or less and disputes of the determination of the appraised or market value of the property.

The property owner would have to file a request for binding arbitration with the chief appraiser with a \$500 deposit. The chief appraiser would have to certify the request, submit the request and deposit to the Comptroller, and request the Comptroller to appoint an arbitrator. The Comptroller could retain 10 percent (\$50) of the deposit for administrative costs.

If the arbitrator determined that the appraised value of the property is nearer to the property owner's opinion of the appraised or market value, the Comptroller would refund the owner's deposit, less the Comptroller's administrative fee; and the appraisal district would pay the arbitrator's fee.

If the arbitrator determined that the appraised value of the property is not nearer to the property owner's opinion of the appraised or market value, the Comptroller would pay the arbitrator's fee out of the owner's deposit. The Comptroller would retain the administrative fee, and any balance remaining would be returned to the owner.

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. Since appraisal districts may make more conservative market value determinations to meet the 99 percent threshold required to prevail in arbitration, passage of the bill could cause a reduction in school district taxable values reported to the Commissioner of Education by the Comptroller.

The Comptroller indicates that implementation of the bill would require one-time start up costs of \$25,950; annual administrative costs of \$263,830; annual technology costs of \$3,762, and six full-time-equivalent positions to maintain a registry and to process the fees. It is assumed that these costs would be paid from the amounts retained by the Comptroller.

The Comptroller makes note that the bill does not specify to what fund the deposits would be made; therefore it is unclear how the funds would be handled. If the funds were deposited to the General Revenue Fund, an appropriation would be necessary to distribute funds from this source.

Local Government Impact

According to data provided by the Comptroller of Public Accounts, there were 751,290 appeals of ad valorem tax determinations filed with an appraisal review board in calendar year 2003. Of the number of appeals filed with the review boards, 359,743 resulted in hearings scheduled, although the petitioner

failed to appear in nearly half of those cases. In the same year, there were 3,325 petitions filed in district court to appeal the appraisal board's decision. Assuming a constant level of appeals of ARB determinations, if 50 percent of the property owners in a given tax year were to choose the binding arbitration alternative to the current appeal to district court, this would result in 1,663 binding arbitration requests statewide.

There would be costs to taxing units that fund appraisal district budgets, because the bill would establish a "loser pays" construction relative to the payment of arbitration fees not to exceed \$450. Assuming that the property owners prevailed in 50 percent to 75 percent of the aforementioned 1,663 petitions filed in district court, the appraisal district statewide could experience a loss of between \$374,000 to over \$560,000 annually.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, SD, WP, DLBe