

BILL ANALYSIS

C.S.H.B. 2744
By: Bailey
Ways & Means
Committee Report (Substituted)

BACKGROUND AND PURPOSE

Currently, the appraised value of rent-restricted property during the construction of the property is determined using the income method of appraisal as provided by Section 23.012 (Income Method of Appraisal), Tax Code. Section 11.1825 (Organization Constructing or Rehabilitating Low-Income Housing: Property Not Previously Exempt), Tax Code, allows the chief appraiser to use a projection of future rental income.

C.S.H.B. 2744 indicates that the appraised value of a property qualifying for an exemption is to be equal to the greater of the amount using the cost method of appraisal or the income method of appraisal.

RULEMAKING AUTHORITY

It is the author's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

SECTION 1. Amends Section 11.1825 , Tax Code, by amending subsections (q) and (r) and adding (q-1), (q-2) and (q-3) as follows:

(q) Modifies subsection (q) by indicating that the appraised value of the property qualifying for an exemption under Section 11.1825 shall use the methods of appraisal under (q-1) and (q-2).

(q-1) Adds this subsection to indicate that if the construction or rehabilitation of the housing project on the property has not been completed, the chief appraiser shall determine the appraised value of the property by using the cost method of appraisal under Section 23.011 except that the chief appraiser shall consider only data pertaining to the cost of the land on which the housing project is located and may not consider data pertaining to the cost of any structure located on the land; or using the income method of appraisal as provided by Section 23.012, except that the chief appraiser shall multiply the appraised value of the property as determined under that section by the percentage of completion of the construction or rehabilitation of the structures comprising the housing project as determined by the architect or lender for the project.

(q-2) Adds this subsection to indicate that if the construction or rehabilitation of the housing project on the property has been completed, the chief appraiser shall determine the appraised value of the property by using the income method of appraisal as provided by Section 23.012.

(q-3) Adds this subsection to indicate that in determining the appraised value of property that qualifies for an exemption under this section using the income method of appraisal the chief appraiser shall consider: the restrictions provided by this section on the income of the individuals or families to whom the dwelling units of the housing project may be rented and the amount of rent that may be charged for purposes of computing the net operating income from the property; the projected net operating income from the property for the first year of operation of the housing project on the property after construction or rehabilitation of the project will have been completed as estimated by a property appraisal provided to the chief appraiser by the property owner if the property is appraised under Subsection (q-1)(2); or the actual net operating income from the property if the property is appraised under Subsection (q-2). In addition, the chief

appraiser shall use the same capitalization rate that the chief appraiser uses to appraise other rent-restricted properties.

(r) Modifies this subsection by defining "net operating income" as the income from property less the expenses incurred that are specific to the property, including compliance monitoring fees and operating and replacement reserves but not including the taxes imposed on the property.

(r-1) Allows the chief appraiser may conduct a study of sales of comparable properties that are located in the appraisal district to determine the appropriate capitalization rate to use in determine the appropriate capitalization rate to use in determining the market value of the property. If as a result of the study the chief appraiser determines that a capitalization rate other than 13.5 percent is more appropriate for that purpose, the chief appraiser shall use that rate.

(r-2) Requires the chief appraiser, not later than January 31 of each year, to give public notice in the manner determined by the appraisal district, including by posting on the district's website if applicable, of the capitalization rate to be used in that year to appraise property under this section if that rate is a rate other than 13.5 percent.

(r-3) In connection with an annual study conducted under Section 403.302, Government Code, the value of a property that qualifies for an exemption under this section and that is selected for appraisal must be determined in the manner required by this section.

SECTION 2. Indicates that the Act applies only to ad valorem taxes imposed for a tax year beginning on or after January 1, 2007. Provides that after the effective date, the chief appraiser shall reappraise property for the 2007 tax year that was appraised before the effective date of this Act if a change in law made by this Act affects the appraised value of the property.

SECTION 3. Effective Date. The effective date is September 1, 2007 but will have an immediate effect if it receives a vote of two-thirds of all the members elected to each house.

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COMPARISON OF ORIGINAL TO SUBSTITUTE

Section 1 of the substitute is revised:

Section 11.1825 (q) Tax Code, is revised to direct the chief appraiser to value the property under the cost approach if no structures have been completed on the property; to value the property using the income approach if the property has not been completed but a percent of the structures have been completed. If the project is completed the appraiser shall use the income approach. See above.

Section 11.1825 (r), Tax Code, is revised to define net operating income. Language pertaining to the chief appraiser's ability to value the property using a study of comparables and, if no comparables, a CAP rate of 13.5% are eliminated. See above.

Section 2 of the original, which amended Section 23.215, Tax Code, is deleted and appropriate section numbers are renumbered.