

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

April 24, 2007

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

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

IN RE: HB438 by Hochberg (Relating to the limitation on the maximum percentage increase in the appraised value of a residence homestead for ad valorem taxation.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB438, Committee Report 1st House, Substituted: a negative impact of (\$14,967,000) through the biennium ending August 31, 2009.

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
2008	\$0
2009	(\$14,967,000)
2010	(\$16,756,000)
2011	(\$17,768,000)
2012	(\$18,839,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/ (Cost) from <i>FOUNDATION SCHOOL FUND 193</i>	Probable Revenue Gain/(Loss) from <i>School Districts - Initial Impact</i>	Probable Revenue Gain/(Loss) from <i>Counties</i>	Probable Revenue Gain/(Loss) from <i>Cities</i>
2008	\$0	\$0	\$0	\$0
2009	(\$14,967,000)	(\$17,939,000)	(\$6,046,000)	(\$6,155,000)
2010	(\$16,756,000)	(\$19,046,000)	(\$6,423,000)	(\$6,496,000)
2011	(\$17,768,000)	(\$20,221,000)	(\$6,822,000)	(\$6,856,000)
2012	(\$18,839,000)	(\$21,467,000)	(\$7,244,000)	(\$7,235,000)

Fiscal Analysis

This bill would amend Section 23.23 of the Tax Code to limit the annual increase in the appraised value of homesteads to 10 percent, regardless of whether the appraisal office had appraised the property and determined the market value for the tax year or the number of years since the last reappraisal of the property. The appraised value could not exceed the most recently determined market value.

Current law limits homesteads to a 10 percent annual increase, multiplied by the number of years since the last reappraisal of the property.

This bill would take effect January 1, 2008, contingent upon passage of a constitutional amendment authorizing the percentage increase.

Methodology

Contingent on the passage of a constitutional amendment, the bill would revise the homestead appraisal cap law to enable appraisal districts to increase the appraised value of homesteads even in a non-reappraisal year, but it would limit the increase to 10 percent of the market value of the homestead determined in the preceding year. In no event could the appraised value exceed the most recently determined market value. Current law allows appraisal districts to increase the appraised value of homesteads by 10 percent per year since the last reappraisal.

For example, under the bill an appraisal district that reappraises once every third year would be allowed to increment homestead values by a maximum of 10 percent per year, but it would be prohibited from incrementing the value by 30 percent in a reappraisal year, as it is permitted to do under current law. This would cause a cost in any taxing unit for which the appraisal district appraised homesteads less often than annually.

A third of the property value in Texas is appraised less than annually. The statewide average number of years between reappraisals is 1.4 years. This information was used along with a projection of costs under current law to estimate the incremental value loss under the bill. The appropriate projected growth rates and tax rates were applied to the value loss to estimate the city, county, and school district levy losses over the projection period. Information to estimate special taxing unit losses was unavailable.

The bill is estimated to have an impact on the state aid districts receive based on the enrichment tier as tied to the yield of the Austin Independent School District (ISD). To the extent that the bill has the effect of lessening Austin ISD's revenue per weighted student per penny of tax effort, as determined by the Commissioner of Education, the equalized yield on those enrichment pennies would decrease, resulting in a decrease in state aid.

Local Government Impact

The initial impact on school districts shown in the table above is provided for illustrative purposes only. The mechanics of the school finance system would likely transfer the fiscal impact to districts' M&O revenue to the state, resulting in a zero or negligible fiscal impact to the school districts. However, districts would experience a one-year lag between the loss of I&S revenue due to the provisions of the bill and the corresponding increase in state aid for debt service, which would occur the following year.

Source Agencies: 304 Comptroller of Public Accounts, 701 Central Education Agency

LBB Staff: JOB, CT, SD, SJS