

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

March 30, 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.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB438, As Introduced: a negative impact of (\$85,423,000) 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	(\$85,423,000)
2010	(\$95,629,000)
2011	(\$101,405,000)
2012	(\$107,523,000)

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	(\$85,423,000)	(\$102,382,000)	(\$34,508,000)	(\$35,128,000)
2010	(\$95,629,000)	(\$108,704,000)	(\$36,656,000)	(\$37,075,000)
2011	(\$101,405,000)	(\$115,409,000)	(\$38,933,000)	(\$39,129,000)
2012	(\$107,523,000)	(\$122,521,000)	(\$41,346,000)	(\$41,295,000)

Fiscal Analysis

The bill would amend Section 23.23 of the Tax Code to limit the increase in the appraised value of homesteads to 10 percent, regardless of the number of years since the last reappraisal of the property.

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

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

Methodology

The bill would revise the homestead appraisal cap law to require county appraisal districts to limit the increase of the appraised value of homesteads to 10 percent, regardless of the number of years since the last reappraisal. Current law limits homestead appraisal growth to 10 percent per year since the last reappraisal. This may cause a cost in any taxing unit for which the appraisal district appraises homesteads less often than annually.

The statewide average number of years between reappraisals is 1.4 years. This factor was applied to the projected current law loss to the 10 percent homestead appraisal cap to estimate the incremental loss to the proposed bill and the corresponding proposed constitutional amendment. 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' maintenance and operation 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 interest and sinking fund revenue due to the provisions of the bill and the corresponding increase in state aid for debt service, which would occur the following year.

Dallas County reports that in 2006 the county had 54,357 capped parcels under the current appraisal cap policy for a loss valuation of \$1.4 billion. As a result of the bill, the maximum reappraisal increase would change from 10 percent per year to 10 percent upon reappraisal. This revision would cost Dallas county \$6.1 million per year.

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

LBB Staff: JOB, CT, SD, SJS