

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: HB1692 by Bailey (Relating to the appraisal for ad valorem tax purposes of certain property used to provide low-income or moderate-income housing.), **As Introduced**

To the extent that appraisal districts used the 13.5 percent capitalization rate proposed in the bill, and that rate exceeded the market capitalization rate in a given year, the bill would impose a cost on local taxing units and a corresponding cost for the Foundation School Fund.

The bill would amend Section 23.215 of the Tax Code, relating to the appraisal of certain property used to provide low or moderate-income housing.

The bill would require appraisal districts to use an income method with a capitalization rate of at least 13.5 percent when appraising non-exempt low and moderate-income housing meeting certain requirements, unless the appraisal district conducted and published a study of sales of comparable properties in the appraisal district to determine a lower market capitalization rate.

The bill would provide that taxes not be deducted in determining the net income from the property and that the Comptroller use the methods provided in the bill if appraising low or moderate-income housing in the annual Property Value Study.

Capitalization rates used in an income appraisal express the relationship between income and market value. The higher the capitalization rate, the lower the market value, and vice-versa. Market capitalization rates vary from year to year, depending on changes in interest rates, supply, demand, and other variables.

The bill would allow an appraisal district to use a capitalization rate less than 13.5 percent if the appraisal district conducts a study based on sales of comparable properties proving the lower rate. Depending on the volume of sales of rent-restricted low- and moderate-income housing, it could be difficult for all appraisal districts to conduct such a study. To the extent that appraisal districts used the 13.5 percent capitalization rate proposed in the bill, and that rate exceeded the market capitalization rate in a given year, the bill would impose a cost on local taxing units and the state.

Because future market capitalization rates cannot be accurately predicted, the availability of future comparable sales cannot be predicted, and the extent to which appraisal districts would be able to conduct market capitalization rate studies cannot be predicted, the fiscal impact of the bill on local taxing units and the state cannot be determined.

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.

The bill would take effect January 1, 2008.

Local Government Impact

To the extent that appraisal districts used the 13.5 percent capitalization rate proposed in the bill, and that rate exceeded the market capitalization rate in a given year, the bill would impose a cost on local taxing units.

Source Agencies: 304 Comptroller of Public Accounts

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