LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

April 21, 2007

TO: Honorable Steve Ogden, Chair, Senate Committee on Finance

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

IN RE: **SB348** by Patrick, Dan (Relating to the establishment of a 10 percent limit on annual increases in the appraised value for ad valorem tax purposes of certain real property, other than residence homesteads, used primarily for residential purposes by the owner of the property.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB348, As Introduced: a negative impact of ($9,078,000) 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	($9,078,000)
2010	($19,285,000)
2011	($29,015,000)
2012	($29,590,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *FOUNDATION SCHOOL FUND* 193	Probable Revenue Gain/(Loss) from *School Districts - Initial Impact*	Probable Revenue Gain/(Loss) from *Counties*	Probable Revenue Gain/(Loss) from *Cities*
2008	$0	$0	$0	$0
2009	($9,078,000)	($10,880,000)	($3,726,000)	($3,262,000)
2010	($19,285,000)	($21,850,000)	($7,538,000)	($6,557,000)
2011	($29,015,000)	($32,913,000)	($11,438,000)	($9,886,000)
2012	($29,590,000)	($33,605,000)	($11,761,000)	($10,102,000)

Fiscal Analysis

The bill would add a new Section 23.231 to the Tax Code to expand the current 10 percent limit on annual increases in the appraised value of residence homesteads to include certain other residential property.

The bill would apply the 10 percent annual appraisal limitation to property used primarily for residential purposes by the owner of the property.

The provisions in the bill would take effect January 1, 2008, contingent upon passage of a constitutional amendment authorizing such a limitation.

Methodology

The bill would require appraisal districts to limit the growth in the appraised value of a second home and owner-occupied rental property to 10 percent per year since the last reappraisal.

The analysis was based on appraisal roll information reported electronically by appraisal districts. The year to year percent change in value for residences that were listed on the appraisal roll in both years and reported to the Comptroller was calculated, and the results were sorted by percent change. The value loss resulting from the proposed limitation was calculated for second homes and owner-occupied rental property that increased in value more than 10 percent. Value lost to the existing 10 percent value limitation on homestead property was excluded. The value loss was adjusted in the second and succeeding years of the analysis to reflect multi-year appraisal cycles and the holdover of capped property from one year to the next based on historical data from the existing 10 percent cap.

The projected city, county, and school district tax rates were applied to the value losses in each year to estimate their respective levy losses. The initial cost to school districts is shown, along with the cost of the hold harmless feature of HB 1, 79th Legislature, 3rd Called Session, the cost of state facilities funding, and the total state cost. Information to estimate the effect on other taxing units was not available.

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