LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION
Revision 1

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

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

IN RE: **SB1935** by Janek (Relating to certain restrictions and obligations in connection with establishing and using the appraised value of real property for taxation purposes; providing penalties.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1935, As Introduced: a negative impact of ($40,791,000) 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	($40,791,000)
2010	($9,250,000)
2011	($2,203,000)
2012	$4,392,000

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *FOUNDATION SCHOOL FUND; Sales Price Disclosure* 193	Probable Savings/(Cost) from *FOUNDATION SCHOOL FUND; Appraisal Cap Reduction* 193	Probable Revenue Gain/(Loss) from *School Districts - Initial Impact; Sales Price Disclosure*	Probable Revenue Gain/(Loss) from *School Districts - Initial Impact; Appraisal Cap Reduction*
2008	$0	$0	$0	$0
2009	$11,577,000	($52,368,000)	$13,876,000	($62,765,000)
2010	$98,859,000	($108,109,000)	$117,863,000	($126,052,000)
2011	$161,986,000	($164,189,000)	$187,719,000	($189,876,000)
2012	$174,891,000	($170,499,000)	$199,287,000	($193,864,000)

Fiscal Year	Probable Revenue Gain/(Loss) from *Counties; Sales Price Disclosure*	Probable Revenue Gain/(Loss) from *Counties; Appraisal Cap Reduction*	Probable Revenue Gain/(Loss) from *Cities; Sales Price Disclosure*	Probable Revenue Gain/(Loss) from *Cities; Appraisal Cap Reduction*
2008	$0	$0	$0	$0
2009	$4,677,000	($21,493,000)	$4,094,000	($18,817,000)
2010	$39,745,000	($43,488,000)	$34,571,000	($37,827,000)
2011	$63,327,000	($65,985,000)	$54,735,000	($57,032,000)
2012	$67,252,000	($67,850,000)	$57,765,000	($58,279,000)

Fiscal Analysis

The bill would add a new subchapter to Chapter 22 of the Tax Code to require the disclosure of the sales price of real property to appraisal districts.

The bill would require the transferee of real property, within 10 days of the deed recordation, to file a signed report with the chief appraiser disclosing the sales price of the property. A disclosure report would not be required for non-market sales, such as foreclosure and bankruptcy transfers. The report would have to include the property's sales price and information identifying the property, its ownership, the method of financing, any unusual or extraordinary terms of sale of transfer, and any additional information relevant to the sale or transfer.

The transferee would have to provide the required information on a Comptroller-prescribed form. A transferee who failed to file a report would be liable to the state for a $1,000 civil penalty for each violation. The appraisal district would have to provide reported information to the Comptroller, who, with assistance from the Texas Real Estate Commission and chief appraisers, would publicize the disclosure process to title companies and property owners.

The bill would amend Section 23.23 to reduce the current 10 percent maximum annual percentage cap in the appraised value of a residence homestead to a maximum of 5 percent. The bill would authorize the governing body of a taxing unit to determine at any time that the limitation would not apply in the following and each subsequent year.

The provisions in the bill would take effect January 1, 2008, contingent upon passage of a constitutional amendment authorizing the proposed reduced appraisal limitation as the bill relates to the proposed limitation.

Methodology

Sales Price Disclosure:

The amount of property value gain was based on a survey of large appraisal districts. The appraisal districts' methodology for estimating gains is unknown. The median percent increase in property value was applied to the state total property value to estimate the statewide property value gain.

The disclosure requirement would begin on January 1, 2008, so the first affected tax year would be 2008; and the first effect on taxing units would be in fiscal 2009. The fiscal 2009 effect would be diminished because only a partial year's information would be available. Also, the state only requires reappraisal once every third year, so the full effect of the bill would not be realized until fiscal 2011. For this estimate, the gain was implemented in increments of one-third per year. Values and tax rates were trended through the projection period. No information was available to estimate special district gains. The appropriate county, city, and school district tax rates were applied to the value gains to project their respective revenue gains.

Appraisal Cap Reduction:

The bill would require appraisal districts to reduce the limit on the growth in the appraised value of a homestead from 10 percent to 5 percent per year since the last reappraisal. However, the bill would authorize the governing body of a taxing unit to determine at any time that the limitation would not apply in the following and each subsequent year. For illustrative purposes, this analysis assumes that half of all the taxing units would choose not to apply the limitation. The actual costs would depend on actions taken by the governing body of taxing units.

The analysis was based on appraisal roll information reported electronically by appraisal districts. The year-to-year percent change in value for homesteads 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 homesteads that increased in value more than 5 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. 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.

For informational purposes the initial cost to school districts is shown, even though it is likely that the hold harmless feature of HB 1, 3rd called session, 79th Legislature, would cause the school district costs to be transferred to the state and the net school district cost to be zero. 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.

Local Government Impact

Passage of the bill would authorize the governing body of a taxing unit to determine at any time that the limitation would not apply in the following and each subsequent year. For illustrative purposes, this analysis assumes that half of all the taxing units would choose not to apply the limitation. The actual costs would depend on actions taken by the governing body of taxing units.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, CT, SD, SJS