

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

March 9, 2009

TO: Honorable Rene Oliveira, Chair, House Committee on Ways & Means

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

IN RE: HB500 by Kolkhorst (Relating to a temporary prohibition on increasing the market value of certain parcels of real property for ad valorem tax purposes following determination of a protest or appeal.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB500, As Introduced: a negative impact of (\$8,743,000) through the biennium ending August 31, 2011.

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 |
|-------------|--|
| 2010 | \$0 |
| 2011 | (\$8,743,000) |
| 2012 | (\$32,454,000) |
| 2013 | (\$46,221,000) |
| 2014 | (\$53,143,000) |

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 - Net Impact</i> | Probable Revenue Gain/(Loss) from <i>Counties</i> | Probable Revenue Gain/(Loss) from <i>Cities</i> |
|-------------|---|--|---|---|
| 2010 | \$0 | \$0 | \$0 | \$0 |
| 2011 | (\$8,743,000) | (\$2,909,000) | (\$3,419,000) | (\$3,904,000) |
| 2012 | (\$32,454,000) | (\$10,121,000) | (\$12,402,000) | (\$14,123,000) |
| 2013 | (\$46,221,000) | (\$11,954,000) | (\$16,818,000) | (\$19,103,000) |
| 2014 | (\$53,143,000) | (\$13,112,000) | (\$19,008,000) | (\$21,534,000) |

Fiscal Analysis

The bill would amend Chapter 23 of the Tax Code, regarding property appraisal methods.

The bill would prohibit an increase in the appraised market value of commercial and residential real property for two years following a year in which the property's appraised market value had been reduced by at least 15 percent by the appraisal review board or as a result of a final determination of an action appealed to the appraisal review board. Property affected by this bill's provisions could not be used as a comparable property for appraisal purposes. Appraised market value increases due to subsequent improvements to the property would not be prohibited.

The bill's effects on market value would apply to the Comptroller's Property Value Study.

The bill would be effective January 1, 2010, and would apply only to a tax year beginning on or after the effective date.

Methodology

The bill would impose a two-year limitation on the value of a residential or commercial property at the value set by the appraisal review board if the reduction was at least 15 percent, causing any growth in the market value to be lost to property taxation. Based on information obtained from appraisal districts, the number of commercial properties with values set by appraisal review boards was estimated and trended. This number was reduced to account for properties with value reductions less than 15 percent. The value growth pertaining to these properties was estimated and trended to estimate the statewide value loss. The appropriate city, county, and school district tax rates were applied to estimate the tax revenue losses.

Because of the operation of the hold harmless provisions of HB 1, 79th Legislature, Third Called Session (2006), the portion of the cost related to school district compressed rates is transferred to the state. A portion of the school district debt and enrichment costs is also transferred to the state after a one-year lag because of the operation of the funding formulas. All costs were estimated over the five year projection period.

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 growth of the equalized yield on those enrichment pennies would slow, resulting in slower growth in state aid.

According to the Comptroller's office, a two year limitation on the values of properties reduced by 15 percent or more by an appraisal review board may not meet the constitutional requirement of equal and uniform taxation.

Local Government Impact

The fiscal implication to units of local government is reflected in the above table.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, MN, SD, SJS