

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

March 17, 2009

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

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

IN RE: HB711 by Rose (Relating to the limitation on increases 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 HB711, As Introduced: a negative impact of (\$45,469,000) 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 | (\$45,469,000) |
| 2012 | (\$89,052,000) |
| 2013 | (\$207,900,000) |
| 2014 | (\$302,949,000) |

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 | (\$45,469,000) | (\$15,127,000) | (\$17,782,000) | (\$20,304,000) |
| 2012 | (\$89,052,000) | (\$24,488,000) | (\$33,073,000) | (\$37,663,000) |
| 2013 | (\$207,900,000) | (\$63,520,000) | (\$78,468,000) | (\$89,124,000) |
| 2014 | (\$302,949,000) | (\$82,900,000) | (\$110,697,000) | (\$125,406,000) |

Fiscal Analysis

The bill would amend Chapter 23 of the Tax Code to change the limit on the annual increase in appraised value for ad valorem taxation of a residence homestead from 10 percent to 5 percent.

The bill would take effect January 1, 2010, contingent on the passage of a constitutional amendment.

Methodology

Contingent on the passage of a constitutional amendment, the bill would require appraisal districts to reduce the limit on the growth in the appraised value of a residence homestead from 10 percent to 5 percent per year. The analysis was based on appraisal roll information reported electronically by appraisal districts. The year to year percent change for homestead values that were listed on the appraisal roll in each of the two most recent years 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. Any value growth over 10 percent was excluded from the calculations.

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 value loss was also reduced to reflect the expected slowdown of growth in the housing market in fiscal 2010 and 2011 and then increased to reflect housing market recovery. The projected city, county, and school district tax rates were applied to the value losses in each year to estimate their respective levy 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 compresses rates is transferred to the state. A portion of the school district debt (facilities funding) and enrichment costs is also transferred to the state after a one-year lag because of the operation of the funding formulas. All cost 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.

Local Government Impact

The fiscal implication to units of local government is reflected in the above table and is contingent upon passage of a constitutional amendment authorizing the exemption.

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

LBB Staff: JOB, MN, SD, SJS