

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION**

**May 28, 2009**

**TO:** Honorable Joe Straus, Speaker of the House, House of Representatives

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

**IN RE: HB770** by Howard, Donna (relating to the ad valorem taxation of a residence homestead that is rendered uninhabitable or unusable by a casualty or by wind or water damage.), **As Passed 2nd House**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB770, As Passed 2nd House: a negative impact of (\$1,194,000) 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	(\$1,194,000)
2012	(\$1,448,000)
2013	(\$1,607,000)
2014	(\$1,782,000)

**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	(\$1,194,000)	(\$397,000)	(\$467,000)	(\$448,000)
2012	(\$1,448,000)	(\$329,000)	(\$518,000)	(\$495,000)
2013	(\$1,607,000)	(\$378,000)	(\$574,000)	(\$547,000)
2014	(\$1,782,000)	(\$435,000)	(\$636,000)	(\$605,000)

**Fiscal Analysis**

The bill would amend Chapter 11 of the Tax Code to exempt from ad valorem taxation property used by certain nonprofit community business organizations providing services to support the economic development of local communities.

The bill would require organizations receiving this exemption to have been in existence for at least five years, maintained a dues-paying membership of at least 50 members for at least the past three years, been organized and registered as a nonprofit corporation, not been a statewide organization, and other factors indicating public support and purpose.

The bill would add new Section 11.135 to the Tax Code to require the continuation of a homestead exemption when a residence is under repair following an event that rendered the residence uninhabitable or unusable. The owner would be required to begin repairs within one year, and the exemption would be limited to two years.

The bill would impose an additional tax to recapture the difference between the amount that would have been taxed and the amount actually taxed with the exemption if the owner sells the property before the completion of a replacement qualified residential structure. The bill would require a lien to be attached to the property to secure payment of the additional tax and interest. The Comptroller would adopt rules and forms to implement this new section.

The bill would make conforming amendments to continue the limitation on tax increases during the construction period and to exclude covered renovations from treatment as improvements for the purpose of calculating any limitation on tax increases.

The extent to which homeowners would return to damaged and uninhabitable residences is unknown.

The extent to which appraisal districts are discontinuing homestead exemptions and homestead tax increase limitations on damaged and uninhabited homesteads is also unknown. To the extent that property tax exemptions and limitations would be continued under the bill that would have been removed under current law, there would be a loss to taxing units and to the state. The overall fiscal impact on the state and local taxing units would be insignificant.

The bill would amend Chapter 11 of the Tax Code to require that the ad valorem tax exemption on solar or wind-powered energy devices installed at a residence homestead would not have to be applied for each year once it was allowed. The bill would not affect the amount of taxes collected, but would only affect the steps involved in the administration of an exemption.

## **Methodology**

The tables above reflect the impact to units of local government. The bill's requirement for mandatory exemptions for qualifying economic development corporation property would create a cost to cities, counties, school districts and the state through the operation of the school finance formulas. The bill would be effective on January 1, 2010, so the fiscal costs would appear in fiscal 2011. The number of Texas economic development corporations that own eligible property was estimated and multiplied by the estimated average value of the property to estimate potential value losses under the proposed bill. The appropriate trended tax rates were applied to the trended value losses 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 school district cost related to the compressed rate would be transferred to the state. Portions of the enrichment cost and the school district debt (facilities) cost would also be transferred to the state after a one-year lag because of the operation of the enrichment and facilities 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.

## **Local Government Impact**

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

**Source Agencies:** 304 Comptroller of Public Accounts

**LBB Staff:** JOB, MN, SD, SJS