LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

May 30, 2009

TO: Honorable David Dewhurst , Lieutenant Governor, Senate
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 ad valorem tax relief for an owner of certain property, including a residence homestead that is rendered uninhabitable or unusable by a casualty or by wind or water damage, and to a restriction on the authority to bring an action to remove a house that is partially located on a public beach as a result of a meteorological event.), **Conference Committee Report**

Estimated Two-year Net Impact to General Revenue Related Funds for HB770, Conference Committee Report: 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 *Foundation School Fund* 193	Probable Revenue Gain/(Loss) from *School Districts - Net Impact*	Probable Revenue Gain/(Loss) from *Counties*	Probable Revenue Gain/(Loss) from *Cities*
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 Section 61.018 of the Natural Resources Code to prohibit a county attorney, district attorney, criminal district attorney, or the attorney general from filing a suit to obtain a temporary or permanent court order to remove a house from a public beach, if the house is now partly on the seaward side of the natural line of vegetation but was located landward of the line of vegetation prior to a meteorological event, and the house is located on a peninsula in a county with a population of more than 250,000 and less than 251,000 that borders the Gulf of Mexico. The owner would be permitted to rebuild the house following a meteorological event that caused the destruction or damage of the house.

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 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.

Methodology

The number of homes that would avoid removal lawsuits under the narrow requirements of the bill is unknown. To the extent that homes remain and are repaired that would have been removed under current law, the value of the property would be increased causing a gain to local taxing units and the state.

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'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.

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