

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

April 22, 2009

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

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

IN RE: HB880 by Strama (Relating to the exemption from ad valorem taxation of certain energy efficiency-related improvements to real or personal property.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB880, As Introduced: a negative impact of (\$340,352,000) 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	(\$340,352,000)
2012	(\$390,185,000)
2013	(\$412,628,000)
2014	(\$440,736,000)

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	(\$340,352,000)	(\$113,237,000)	(\$133,107,000)	(\$127,666,000)
2012	(\$390,185,000)	(\$85,714,000)	(\$138,624,000)	(\$132,605,000)
2013	(\$412,628,000)	(\$94,735,000)	(\$146,679,000)	(\$139,943,000)
2014	(\$440,736,000)	(\$105,365,000)	(\$156,672,000)	(\$149,091,000)

Fiscal Analysis

The bill would amend Chapter 11 of the Tax Code, regarding property tax exemptions.

The bill would exempt from ad valorem taxation the value arising from the installation of certain energy efficiency-related improvements to real property. The Comptroller and the State Energy Conservation Office would develop guidelines to assist local officials in administering these provisions.

The bill would take effect January 1, 2010, contingent upon the passage of a proposed constitutional amendment that would be submitted to voters at an election to be held November 3, 2009.

Methodology

Contingent on passage of a constitutional amendment, the bill entitles a person to an exemption from taxation of the amount of appraised value arising from installation of energy efficiency-related improvements. Marshall and Swift Cost Valuation Services recommends making a zero to 7 percent modifying adjustment for homes and a 5 to 15 percent adjustment for commercial buildings with "Green Building" standards. Interviews with builders indicate that 7 to 10 percent of the cost of new construction is spent on these energy efficient improvements.

For the purpose of this estimate it was assumed that many homes built since 1990 and most new homes in the future will be built to this specification because many cities are currently imposing strict requirements for energy efficiency in their codes. It is also assumed that some older homes in metropolitan areas have been retrofitted with energy efficient improvements in response to the demands of the market.

A conservative estimate was chosen (3.5 percent of total improvement value of newer homes and 0.5 percent of older homes is due to energy efficient improvements). Commercial buildings will follow the same trends and therefore a conservative adjustment of 5 percent was applied to the total improvement values for commercial buildings now existing and expected due to future growth. Due to the difficulty in determining the amount of personal property eligible for this exemption, a conservative 0.05 percent was used.

The appropriate trended taxing unit rates were applied to the trended value losses to estimate revenue losses to cities and counties. 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 (facilities funding) and enrichment costs are 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.

Local Government Impact

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

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, MN, SD, SJS