

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

May 25, 2009

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

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

IN RE: HB3613 by Otto (Relating to the determination of the market value of a residence homestead for ad valorem tax purposes on the basis of the property's value as a residence homestead.),
As Passed 2nd House

Estimated Two-year Net Impact to General Revenue Related Funds for HB3613, As Passed 2nd House: a negative impact of (\$11,421,000) through the biennium ending August 31, 2011.

Passage of the bill would also reduce appraised values for homesteads in areas that are in transition from residential to a more valuable use. As a result, taxable property values could be reduced and the related costs to the Foundation School Fund could be increased.

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	(\$11,421,000)
2012	(\$13,884,000)
2013	(\$15,502,000)
2014	(\$17,314,000)

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	(\$11,421,000)	(\$3,800,000)	(\$4,467,000)	(\$5,100,000)
2012	(\$13,884,000)	(\$3,155,000)	(\$4,963,000)	(\$5,652,000)
2013	(\$15,502,000)	(\$3,663,000)	(\$5,541,000)	(\$6,293,000)
2014	(\$17,314,000)	(\$4,243,000)	(\$6,185,000)	(\$7,006,000)

Fiscal Analysis

The bill would implement the provisions of Section 1-b(i), Article VIII, of Texas Constitution, to authorize a totally disabled veteran to receive an exemption of 100 percent of the appraised value of the veteran's residence homestead.

In addition, the bill would conform the bracket limit points for veterans with disability ratings to the limit points provided in Section 2(b), Article VIII of the Texas Constitution.

The bill would also make conforming amendments requiring the deduction of the value lost to the new exemption in the Comptroller's property value study.

The bill would amend Chapter 23 of the Tax Code to require that the market value of a residence homestead be determined solely on the basis of its use as a homestead and not at its highest and best use.

Methodology

The number of 100 percent disabled veterans that own homesteads was estimated based on information from appraisal districts and trended through the five year projection period. The number of disabled veterans in each year was multiplied by the projected average taxable value of veterans' homesteads to develop an annual taxable value loss in each year of the projection period. The applicable projected tax rates were applied to estimate the levy loss to cities and counties, and to estimate the net school district loss.

The mechanics of the school finance system would transfer the costs related to the compressed tier funding to the state and would transfer a portion of the debt (facilities funding) and enrichment costs to the state, reducing the fiscal impact to school districts.

The bill would 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.

There would be no significant cost to conforming the disabled veteran bracket point limits to the limit points provided in Section 2(b), Article VIII of the Texas Constitution.

According to the Comptroller of Public Accounts, the vast majority of residence homesteads are at their highest and best use. Only homesteads in areas that are in transition from residential to a more valuable use (such as commercial) and are allowed by local zoning to make that transition would be affected by this bill. The bill would reduce appraised values for those residence homesteads, but information about the number and value of such homesteads is unavailable. As a result, the fiscal impact of the bill cannot be estimated.

Local Government Impact

Because of the operation of the hold harmless provisions of HB 1, 79th Legislature, Third Called Session (2006), the school district revenue losses would increase state costs in the Foundation School Program compressed tier. 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.

Passage of the bill would reduce appraised values for homesteads in areas that are in transition from residential to a more valuable use. As a result, taxable property values and the related ad valorem tax revenue for units of local government could be reduced.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, MN, SD, SJS