LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

May 3, 2009

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

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

IN RE: **HB4038** by Merritt (Relating to the system for appraising property for ad valorem tax purposes.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB4038, As Introduced: a negative impact of ($60,126,000) 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	($60,126,000)
2012	($128,945,000)
2013	($302,634,000)
2014	($440,992,000)

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	($60,126,000)	$43,606,000	($73,667,000)	($40,797,000)
2012	($128,945,000)	$30,459,000	($100,804,000)	($69,470,000)
2013	($302,634,000)	($21,665,000)	($170,043,000)	($145,259,000)
2014	($440,992,000)	($45,630,000)	($220,307,000)	($199,004,000)

Fiscal Analysis

The bill would amend the Tax Code to require that an appraisal district be governed by the assessor-collector of the county for which the district is established as part of the duties of the office. The bill would permit the county assessor-collector to serve as chief appraiser for the appraisal district or to appoint another person to serve as chief appraiser. The bill would also abolish appraisal district boards of directors and give their duties, rights, and responsibilities to the county assessor-collector.

The bill would change the method of allocation of the appraisal district budget to the taxing units from a percentage of tax levy to a percentage of taxable value basis, but would limit special districts' (districts other than school districts, cities, and counties) overall percentage of the appraisal district budget to 10 percent.

The bill would allow the county assessor-collector to contract with other taxing units to consolidate employee benefit plans, vendor contracts, leases, or purchases if the consolidation would reduce the costs of those items. The bill would require a person who is audited by the Comptroller and owns income-producing personal property to notify the Comptroller regarding whether the person filed a required rendition statement or property report with the chief appraiser. The Comptroller would be required to forward the notice to the appropriate chief appraiser.

The bill would require that the market value of a residence homestead be set at the homestead's appraised value for the first tax year after the year in which the owner acquires the property. The bill would further require that the market value remain at the set amount until the end of the tax year in which the ownership of the property changes ownership, subject only to adjustment by a consumer inflation factor and an increase to account for the market value of new improvements to the property.

The bill would require the Comptroller to annually determine and publish inflation adjustment factors for use in adjusting the value of homesteads. The assessor-collector would be required to use the inflation adjustment factors determined by the Comptroller to adjust the value of homesteads. The chief appraiser would be required to determine and include in the appraisal records both the market value of the property and the appraised value calculated as provided in the bill. For the purposes of this new appraisal procedure, the owner of a residence homestead on January 1, 2010 is considered to have acquired the property in the 2009 tax year.

The bill would require an appraisal district's reappraisal plan to provide for homestead reappraisal activities only once every 10 years.

The bill would make conforming changes to the Local Government Code and the Occupations Code.

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

Methodology

The bill's provision changing the method of allocation of the appraisal district budget from a percentage of levy to a percentage of taxable value basis would cause a fiscal gain to school districts because the school district percentage of taxable value is smaller than the school district percentage of tax levy in an appraisal district. This is a result of the fact that school district tax rates are higher than city or county tax rates. The reverse is true of cities and counties, so the change in the method of budget allocation would cause a fiscal loss in these taxing units. The respective gains or losses are incorporated in the table above. Changes in taxing unit budget allocations would not have any fiscal impact on the state.

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 the annual inflation rate. 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 the projected inflation rate. Any value growth over 10 percent was excluded from the calculations. The value loss was reduced by the provision that homesteads that change ownership are appraised at market value.

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. The city, county, and school district levy losses were reduced by the savings from reappraising homestead property only once every ten years. The state costs are affected only by taxable value changes or collections changes. Appraisal savings would not affect taxable values or tax collections, so the state costs would not be reduced by these savings.

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 rate 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 costs were estimated over the five year projection period.

Note: Fiscal impacts are also shown in the fiscal note for the resolution that would put a constitutional amendment before the voters to reduce the limit on homestead appraised value growth. The fiscal impacts associated with the constitutional amendment differ from those shown here because the constitutional amendment does not include appraisal district budget changes. These fiscal impacts would occur only if the constitutional amendment passes.

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